



# 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)

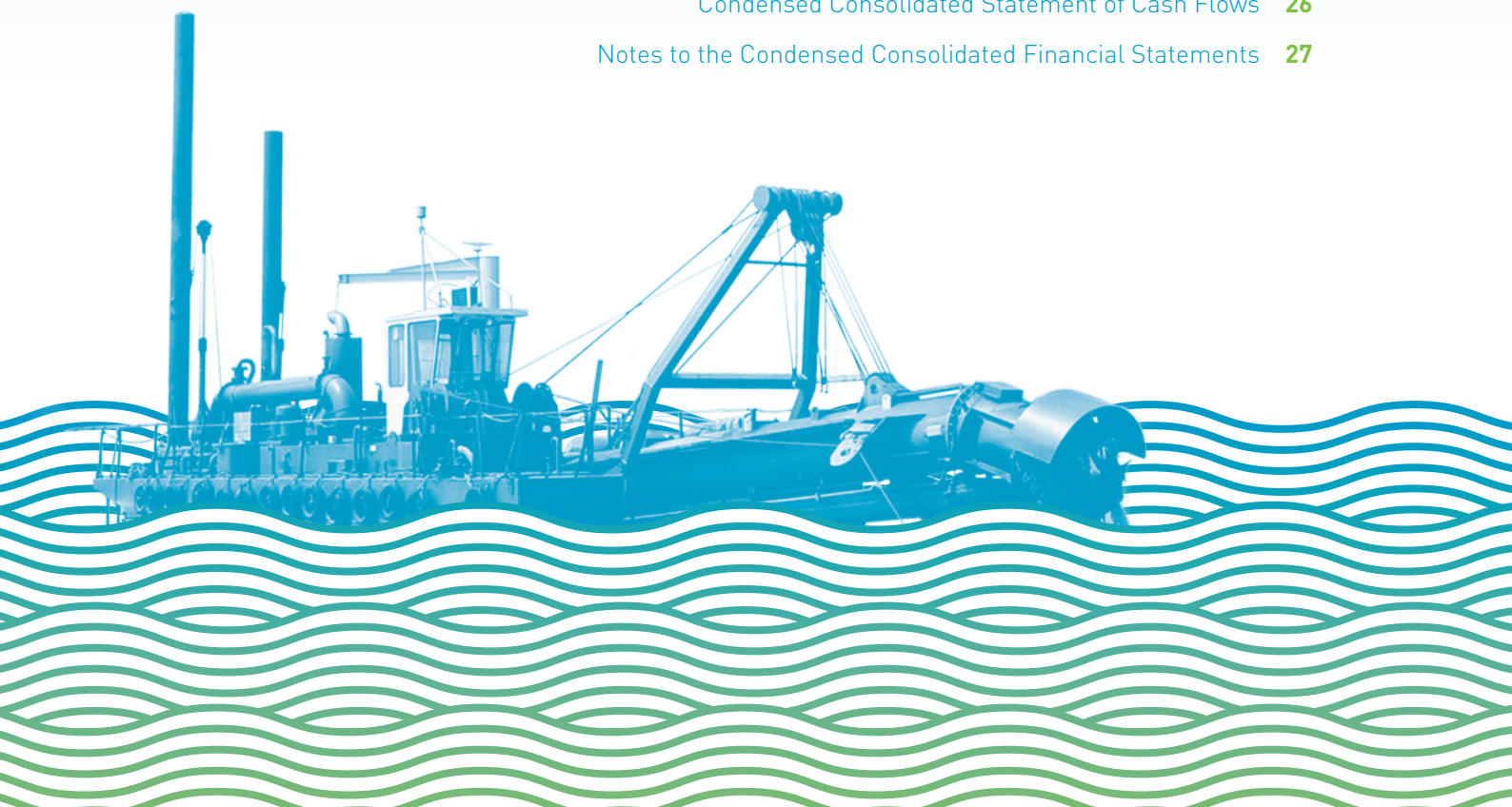
Stock Code: 871

### Interim Report 2015



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# 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. Chan Ming Sun Jonathan  
Mr. Xu Hengju

## AUTHORISED REPRESENTATIVES

Mr. Liu Kaijin  
Mr. Leung Kim Hung

## COMPANY SECRETARY

Mr. Leung Kim Hung

## LEGAL ADVISOR

Chiu & Partners (as to Hong Kong Law)

## AUDITOR

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

## PRINCIPAL BANKERS

Yancheng City Branch office of Agricultural Bank of China Limited  
Bank of Jiangsu, Yan Cheng  
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

## PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited

## HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

## WEBSITE

[www.cdep.com.hk](http://www.cdep.com.hk)

# Definition

<b>“Audit Committee”</b>	the audit committee of the Company
<b>“Board”</b>	the board of Directors
<b>“CG Code”</b>	the code provisions as contained in “Corporate Governance Code and Corporate Governance Report” set out in Appendix 14 to the Listing Rules (as amended from time to time), which are adopted (with modification) by the Board as its corporate governance code
<b>“Company”/“China Dredging ENV”</b>	China Dredging Environment Protection Holdings Limited
<b>“Contractual Arrangements”</b>	a series of contracts, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC, details of which were set out in the prospectus of the Company dated 8 June 2011
<b>“Director(s)”</b>	director(s) of the Company
<b>“Group”</b>	the Company and its subsidiaries
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“Jiangsu Fengyu”</b>	江蘇豐宇置業有限公司 (Jiangsu Fengyu Property Company Limited*), a wholly-owned subsidiary of the Company
<b>“Jiangsu Jiaolong”</b>	江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.*), a non-wholly owned subsidiary of the Company
<b>“Jiangsu Lugang”</b>	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. Limited*), a wholly-owned subsidiary of the Company
<b>“Jiangsu Xingyu”/“PRC Operational Entity”</b>	江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holding Group Limited*) (formerly known as 江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*)), a wholly-owned subsidiary of the Company
<b>“Listing Rules”</b>	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
<b>“Model Code”</b>	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)
<b>“Mr. Liu”</b>	Mr. Liu Kaijin, joint chairman, chief executive officer and an executive Director (who is the spouse of Ms. Zhou)
<b>“Ms. Zhou”</b>	Ms. Zhou Shuhua, an executive Director (who is the spouse of Mr. Liu)

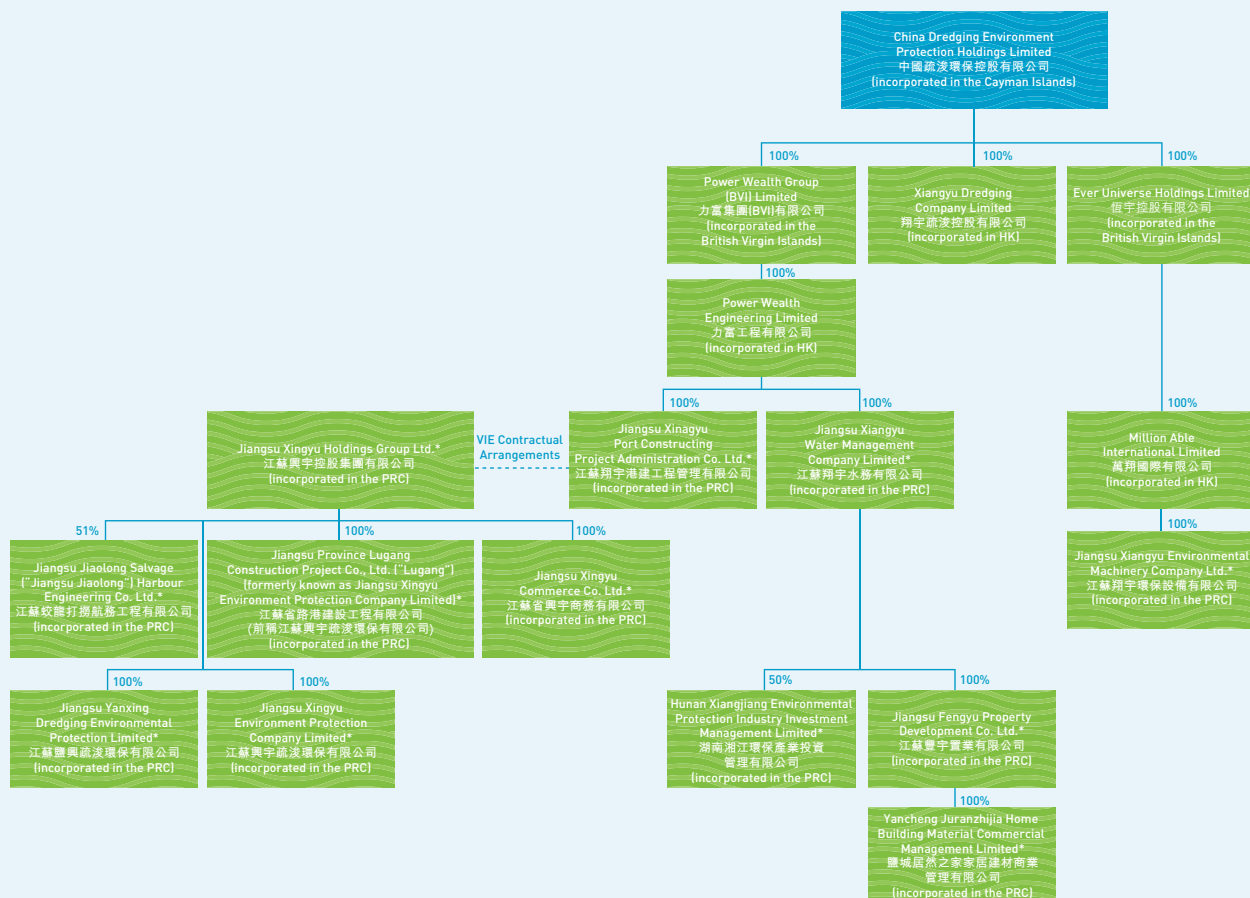
## Definition

<b>“Nomination Committee”</b>	the nomination committee of the Company
<b>“PRC”</b>	the People’s Republic of China
<b>“Remuneration Committee”</b>	the remuneration committee of the Company
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“SFO”</b>	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (as amended from time to time)
<b>“Shareholder(s)”</b>	shareholder(s) of the Company
<b>“Share(s)”</b>	ordinary share(s) of the Company
<b>“Share Option Scheme”</b>	the share option scheme approved by Shareholders on 24 May 2011
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Xiangyu Environment Protection”</b>	江蘇翔宇環保設備有限公司 (Jiangsu Xiangyu Environment Protection Equipment Company Limited*), a wholly-owned subsidiary of the Company
<b>“Xiangyu PRC”</b>	江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*), a wholly-owned subsidiary of the Company
<b>“Xiangyu Water Management”</b>	江蘇翔宇水務有限公司 (Jiangsu Xiangyu Water Management Company Limited*), a wholly-owned subsidiary of the Company

\* For identification purpose only

# Group Chart

The following sets out the group structure as at 30 June 2015:



## Notes:

1. Mr. Liu and Ms. Zhou are the registered holders of the registered capital in Jiangsu Xingyu, 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. The acquisition of Lugang was completed in December 2013.

\* For identification purpose only

# Management Discussion and Analysis

## BUSINESS REVIEW

During the Reporting Period, the Company recorded a revenue of approximately RMB395.9 million, representing a period-on-period decrease of 12.2%. During the Reporting Period, the gross profit of the Company was approximately RMB133.3 million, representing a period-on-period decrease of 8.3%. The net profit was approximately RMB72.6 million (or approximately RMB66.0 million if non-cash gain in fair value change of Convertible Bonds (as defined below) and Warrants (as defined below) was excluded), representing a period-on-period increase of 15.1% from RMB63.1 million in the first half of 2014 (or decrease of 13.7% if non-cash gain of about RMB6.6 million for the Reporting Period and non-cash loss of about RMB13.4 million for the six months ended 30 June 2014 in fair value change of Convertible Bonds and Warrants were excluded). The profit attributable to the Shareholders for the Reporting Period was approximately RMB68.6 million.

The major factor for the decrease of the Group's revenue recorded in the Reporting Period as compared to the first half of 2014 is because upon completion of certain water management projects, no sizeable new environmental protection dredging ("EPD") project work was taken up and/or commenced during the Reporting Period. In the first half of 2015, the reclamation and capital dredging ("CRD") business of the Company improved, while the EPD and water management business declined as compared with the corresponding period of previous year. As regards the CRD business, a number of newly placed orders for reclamation projects were proceeded with and the utilization rate of the dredgers was improved during the Reporting Period. Regarding the EPD and water management business, while certain water management projects had been completed, no sizeable new EPD project work was taken up and/or commenced during the Reporting Period. Due to the downward pressure of the PRC domestic macroeconomic condition, the EPD and water management segment growth was slower than expected though various favorable policies in water treatment industry have come into force in the PRC gradually in the past several years. The work schedule for Phase 2 of EPD project at Nanhu, Wuhan (武漢南湖) has yet to be announced as at the date of this announcement while Phase one of the said EPD project had been completed by the Group for a period of time. The Group is in the course of reviewing the corresponding construction timetable with its customers in relation to the projects.

Due to the said situation, the Group has determined to slow down its initial production plan of dewatering equipment for the time being as the Group's capacity for EPD business has already been increased to around 5 million cubic meter per annum.

The net profit of the Company for the first half of 2015 as compared to the first half of 2014 increased which was mainly attributable to the non-cash fair value gain of (a) an unsecured convertible bonds issued in November 2013 ("Convertible Bonds") and (b) a series of warrants issued in January 2014 ("Warrants"), with a gain of approximately RMB6.6 million in the Reporting Period.

The Company and a placing agent entered into a placing agreement dated 29 December 2014 and a supplemental agreement dated 29 January 2015 pursuant to which the placing agent agreed to procure a placee to subscribe for 171,120,000 placing shares at the placing price of HK\$1.38 per placing share. An aggregate sum of about HK\$236.0 million (about RMB186.5 million) being the net proceeds of subscription price was received by the Company on 30 January 2015 and 2 February 2015 respectively, details of which were set out in the Company's announcements dated 29 December 2014, 29 January 2015, 30 January 2015 and 2 February 2015 respectively. Up until 30 June 2015, around HK\$216.0 million (about RMB170.7 million) out of the net proceeds was used as additional general working capital of the Group with the rest in the sum of about HK\$20.0 million (around RMB15.8 million) being deposited into a bank.

## Management Discussion and Analysis

### BUSINESS REVIEW (Continued)

On May 2015, the Company, 上海璃澳實業有限公司 (Shanghai Liao Property Company Limited\*) ("Shanghai Property") and 豐威實業投資集團有限公司 (Fundway Property Investment Group Limited\*) ("Fundway Investment") entered into an investment agreement ("JV Agreement") in relation to the formation of a joint venture company ("JV") which shall be owned as to 80%, 10% and 10% by the Company, Shanghai Property and Fundway Investment respectively. The total registered capital of the JV will be RMB400 million. The parties intend to, through the JV, conduct micro-financing business including lending, venture capital financing and other business. The formation of the JV is subject to, among other matters, the approval by the relevant regulatory authorities in the PRC. In the event the precedent conditions have not been fulfilled by 31 December 2015, the JV Agreement shall cease and determine. For further details, please refer to the Company's announcement dated 16 May 2015.

### FUTURE PROSPECTS

The world is facing a series of tough challenges in the second half of this year. The Group's business may be negatively impacted in the coming months. Despite the market situation, the Group is still cautious but optimistic about the potential in both CRD and EPD business in the PRC in the long run. While the management will pay more effort to get more projects in order to maintain the aggregate quantity of work in the order book, the Group will increase its investment in research and development of polluted water and sludge treatment including the building of a new research centre. Further, in order to broaden its income source and enhance its financial performance, the Company entered into the JV Agreement as above mentioned to provide micro-financing business in the PRC which the management are optimistic about its prospect and potential.

As mentioned before, 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. In order to enjoy the full benefits of the favorable policies for the industry, the Group's management believes that it is very important to the Group to keep on developing its technology with leading advantages together with refining and extending its business model in polluted water and sludge treatment. Apart from making endeavors to prepare for bidding EPD projects to be carried out at Taihu\* (太湖), Chaohu\* (巢湖) and Dian Lake\* (滇池) etc. whenever the tendering of such projects are available, the Group shall, with its various self-developed sludge treatment technologies and processes 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").



# Management Discussion and Analysis

## FINANCIAL REVIEW (Continued)

### Revenue

During the Reporting Period, the Group recorded a decrease in revenue. Revenue for the Reporting Period was about RMB395.9 million, representing a decrease of about 12.2% as compared with about RMB450.7 million in the corresponding period of 2014.

As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the Reporting Period were about RMB220.2 million and about RMB103.5 million which represented an increase of about 8.4% and a decrease of about 19.9% respectively from the corresponding segments' revenue in the corresponding period of 2014. The slightly increase in revenue from the CRD Business segment was primarily due to the work done of certain newly placed orders of reclamation projects and the improvement of utilization rate of the dredgers during the Reporting Period. Revenue from EPD and Water Management Business segment decreased by 19.9% in the first half of 2015 because of the completion of certain water management projects but no sizeable new EPD projects was taken up and/or commenced during the Reporting Period.

No revenue was generated from the Dredging Related Construction Business during the Reporting Period which represented a decrease of 100% as compared with about RMB33.2 million in the corresponding period of 2014. No such construction work was required during the first half of 2015.

Other Marine Business contributed revenue of about RMB72.2 million to the Group for the Reporting Period, which represented a decrease of about 15.2% as compared with about RMB85.1 million in the corresponding period of 2014 mainly due to the drop of the business and the service price caused by the increased competition in salvage and hoisting business during the Reporting Period.

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 RMB305.4 million for the six months ended 30 June 2014 to about RMB262.6 million for the Reporting Period, representing a decrease of about 14.0% which was due to the drop of the business and the price of fuel oil. The Group recorded a gross profit of about RMB133.3 million for the Reporting Period, representing a decrease of 8.3% as compared with the six months ended 30 June 2014 of about RMB145.3 million. The decrease in gross profit was mainly due to lower revenue income during the Reporting Period.

The segment profit margin of CRD Business increased from about 35.3% for the six months ended 30 June 2014 to 37.9% for the Reporting Period, mainly due to the increase of utilization rate of the dredgers during the Reporting Period.

The Group's Dredging Related Construction Business is an ancillary services which principally includes ancillary construction work of capital and reclamation dredging services and that traditionally operated at relatively low but acceptable gross profit margin. No such service is required during the Reporting Period.

# Management Discussion and Analysis

## FINANCIAL REVIEW (Continued)

### Operating cost and gross profit (Continued)

The segment profit margin of EPD and Water Management Business segment for the Reporting Period was about 29.9% which was slightly higher than about 29.1% for the six months ended 30 June 2014. Such segment profit margin level was assessed to be reasonable as the water management projects with lower gross profit margin remained the majority share of the segment during the Reporting Period. The segment profit margin of Other Marine Business was about 28.9% for the six months ended 30 June 2014 and about 15.2% for the Reporting Period, mainly due to increased competition in the salvage industry.

As a result, the overall gross profit margin of the Group increased from 32.2% for the six months ended 30 June 2014 to 33.7% for the Reporting Period.

### Other income

Other income decreased from RMB25.7 million for the six months ended 30 June 2014 to about RMB19.6 million for the Reporting Period, mainly due to the decrease in bank interest and interest income in respect of certain non-current accounts receivables and current consideration receivable during the Reporting Period.

### Net gain due to fair value changes of derivative financial liabilities

There was a non-cash gain of about RMB6.6 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 and Water Management 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 2015.

### Marketing and promotion expenses

Marketing and promotion expenses for the Reporting Period was about RMB3.4 million representing a decrease of around 46.0% as compared with the six months ended 30 June 2014 of about RMB6.3 million which the management considered to be still at a reasonable level.

### Administrative expenses

Administrative expenses for the Reporting Period remained at a reasonable level which is in line with the corresponding period in 2014.

### Finance costs

Finance costs increased by about RMB10.0 million to about RMB38.3 million for the Reporting Period as compared to the six months ended 30 June 2014, mainly due to the increase of borrowing costs.

### Income tax expense

Due to the decrease in profit before tax, income tax expense for the Reporting Period amounted to about RMB27.0 million, representing a decrease of about RMB10.1 million compared with the corresponding period in 2014.

# Management Discussion and Analysis

## FINANCIAL REVIEW (Continued)

### Profit for the period

As a combined effect of the above, the net profit for the period increased by about 15.1% from about RMB63.1 million for the six months ended 30 June 2014 to about RMB72.6 million for the Reporting Period. Comparing the operating profit of the six months ended 30 June 2014 with the operating profit for the Reporting Period (with the non-cash net gain of about RMB6.6 million for the Reporting Period and the non-cash net loss of about RMB13.4 million for the six months ended 30 June 2014 due to fair value changes of derivative financial liability not taken into account), the operating profit dropped by about 13.7%.

### Earnings per share

Basic earnings per share for the Reporting Period was RMB0.07 per share which remained the same as that for the six months ended 30 June 2014.

### Financial position, liquidity and financial resources

The Group has remained at a sound financial resource level. As at 30 June 2015, total equity of the Group amounted to about RMB2,194.0 million (31 December 2014: RMB1,934.9 million).

The Group's net current assets as at 30 June 2015 amounted to about RMB212.7 million (31 December 2014: RMB274.9 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2015 was 1.16 (31 December 2014: 1.24). The decreases in both the Group's net current assets and current ratio were mainly due to the increase in accounts and other payables.

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 RMB221.1 million as at 30 June 2015, representing an increase of about RMB62.8 million as compared with about RMB158.3 million as at 31 December 2014.

Due to slower settlement from the debtors, the Group's accounts and bills receivables as at 30 June 2015 increased by about RMB141.7 million from 1,279.6 million as at 31 December 2014 to about RMB1,421.3 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 2015 did not significantly impair the Group's liquidity position as it has a positive operating cash flow before movements in working capital changes for the Reporting Period.

Total liabilities of the Group increased from RMB1,533.7 million as at 31 December 2014 to about RMB1,758.4 million as at 30 June 2015. The increase in total liabilities was mainly due to the increase of bank borrowings and accounts and other payables. The Group's gearing ratio (calculated by bank borrowings divided by total assets) decreased to a level of 17.9% (2014: 18.2%), which the Board believes is at a healthy level.

## FINANCIAL REVIEW (Continued)

### Charge over assets of the Group

As at 30 June 2015, the Group's bank borrowings and credit facilities are secured by pledged bank deposits of about RMB83.8 million, charges over certain dredgers, accounts receivables and land owned by the Group, two parcel of land owned by Yongheng, a property owned by a company which Mr. Liu Kai Jin ("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 Shuhua. 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 江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holding Group Limited\*) have been transferred to 江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.\*).

### 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

There was no material acquisitions or disposals during the period under review.

### Capital commitments and contingent liabilities

As at 30 June 2015, the Group has the following substantial capital commitment:

- (i) RMB24.0 million in relation to the investment in Hunan Xiangjiang Environmental Asset Investment Management Co Ltd\* (湖南湘江環保產業投資管理有限公司) ("Hunan Investment"), a joint venture established with Zhuzhou Cyclic Economy Investment and Development Group Co., Ltd.\* (株洲循環經濟投資發展集團有限公司) (formerly known as Zhuzhou Cyclic Economy Investment and Development Co., Ltd.\* (株洲循環經濟投資發展有限責任公司)), a State-owned enterprise established by the Committee of Zhuzhou Qingshitang Cyclic Economy Industrial Zone\* (株洲清水塘循環經濟工業區委員會) ("Zhuzhou Investment") in the PRC (31 December 2014: RMB24.0 million). Please refer to the Company's announcements dated 21 October 2012 and 18 March 2014 for further details, and

### FINANCIAL REVIEW (Continued)

#### Capital commitments and contingent liabilities (Continued)

- (ii) About RMB196.2 million in relation to the engineering, procurement and construction of part of the commercial buildings on the site at Yandu District of Yancheng\* (鹽城市鹽都區), Jiangsu Province, the PRC, with an area of about 46,000 square metres acquired by the Group in May 2012 ("Commercial Buildings") for its own use including relocating the Group's centralized headquarters to the Commercial Buildings. As at the date of this announcement, the management is considering that part of the Commercial Buildings not utilised by the Group will be leased out to third party tenants for diversifying our business and enhancing and providing alternative source of revenue income of the Group in the future. Further announcement shall be made by the Group as and when appropriate. Please also refer to the Company's announcement dated 8 May 2012 for further details.

Further, as set out in the paragraph headed "Business Review" above, the Group will invest RMB320.0 million into the JV for carrying out micro-financing business if approval by the relevant authorities in the PRC is granted and other conditions precedent are fulfilled on or before 31 December 2015.

As at 30 June 2015, the Group did not have any material contingent liability (31 December 2014: nil).

#### Employees and remuneration policy

As at 30 June 2015, the Group had a workforce of 652 employees (31 December 2014: 630). Total staff cost for the Reporting Period was about RMB30.0 million (2014: RMB27.4 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 period under review, 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.

# Disclosure of Interests and Other Information

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

As at 30 June 2015, 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

Name of Director	Capacity	Notes	Long position	
			Number of ordinary Shares	Approximate percentage of total number of Shares
Mr. Liu Kaijin	Interest in controlled corporation	1	335,301,000	32.66%
	Beneficial owner	1	37,503,000	3.65%
Ms. Zhou Shuhua	Interest in spouse	2	372,804,000	36.31%

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 37,503,000 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.

## Disclosure of Interests and Other Information

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

#### Interests in associated corporations

Name of Director	Name of associated corporation	Capacity	Notes	Long position	
				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:

- 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.
- 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 2015 (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.

## Disclosure of Interests and Other Information

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

As at 30 June 2015, 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

Name of Shareholder	Capacity	Notes	Long position		Short position	
			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	32.66%	—	—
東台際華機械配件有限公司	Beneficial owner		171,120,000	16.67%	—	—
CITIC Capital China Access Fund Limited ("CITIC") (Note 1)	Beneficial owner		90,000,000	8.77%	—	—
CITIC Capital Holdings Limited (Note 2)	Interest in controlled corporations	1	90,000,000	8.77%	—	—
Taikang Life Insurance Co. Ltd. (泰康人壽保險股份有限公司)	Interest in controlled corporation	2	51,336,000	5%	—	—
Taikang Asset Management Co. Ltd. (泰康資產管理有限責任公司)	Interest in controlled corporation	2	51,336,000	5%	—	—
Taikang Asset Management (H.K.) Co. Ltd. (泰康資產管理(香港)有限公司)	Beneficial owner	2	51,336,000	5%	—	—



## Disclosure of Interests and Other Information

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

#### **Interests in the Company (Continued)**

Notes:

1. 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. 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.
2. Taikang Asset Management (H.K.) Co. Ltd. is the beneficial owner of 51,336,000 shares as at 17 April 2015 being first becoming interested in 5% or more of the shares of the Company. Taikang Asset Management (H.K.) Co. Ltd. is wholly owned by Taikang Asset Management Co. Ltd., which is wholly owned by Taikang Life Insurance Co. Ltd.

Saved as disclosed above, as at 30 June 2015, 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 were set out under the paragraph headed "Share Option Scheme" in Appendix VII to the prospectus of the Company dated 8 June 2011.

## Disclosure of Interests and Other Information

### SHARE OPTION SCHEME (Continued)

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

Category of participant	Number of underlying shares (subject of the share options)			As at 30 June 2015	Date of Offer	Exercise period	Closing price immediately before the date of offer (HK\$ per Share)	Exercise price* (HK\$ per Share)
	As at 1 January 2015	Granted during the period	Exercised, canceled or lapsed during the period					
Employees of the Group	0	0	0	0	—	—	—	—
Others	0	0	0	0	—	—	—	—
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>				

As at 30 June 2015, the Company had no outstanding options under the Share Option Scheme. The total number of Shares available for issue under the Share Option Scheme and the percentage to the total issued share capital of the Company that it represents as at 30 June 2015 is 85,560,000 Shares and approximately 8.3% respectively.

## Disclosure of Interests and Other Information

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Stock Exchange made certain amendments (“Amendments”) to the Listing Rules, which related to the Corporate Governance Code (“CG Code”), practices and reporting. Such revision took effect from 1 January 2012, 1 April 2012 or 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 Reporting Period 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 2015 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Xu Hengju and Mr. Huan Xuedong, 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 2015, the Remuneration Committee comprised of 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 2015, the Nomination Committee comprised of 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.

## Disclosure of Interests and Other Information

### **INTERIM DIVIDEND**

The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2014: Nil).

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

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

### **DIRECTORS' COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conducts regarding Directors' securities dealings. Specific enquiries had been made to all Directors, who confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.



## 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 22 to 48, which comprises the condensed consolidated statement of financial position as of 30 June 2015 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.

## Report on Review of Condensed Consolidated Financial Statements



### CONCLUSION

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

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 August 2015

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Revenue	5	<b>395,886</b>	450,717
Operating costs		<b>(262,572)</b>	(305,411)
Gross profit		<b>133,314</b>	145,306
Other income	6	<b>19,641</b>	25,712
Other gains and losses	7	<b>6,590</b>	(13,443)
Marketing and promotion expenses		<b>(3,356)</b>	(6,326)
Administrative expenses		<b>(18,323)</b>	(22,885)
Finance costs	8	<b>(38,271)</b>	(28,226)
Profit before tax		<b>99,595</b>	100,138
Income tax expense	9	<b>(27,008)</b>	(37,085)
Profit and total comprehensive income for the period	10	<b>72,587</b>	63,053
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		<b>68,577</b>	54,742
Non-controlling interests		<b>4,010</b>	8,311
		<b>72,587</b>	63,053
Earnings per share	11		
— basic (RMB)		<b>0.07</b>	0.07
— diluted (RMB)		<b>0.07</b>	0.06

# Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	1,707,721	1,726,628
Prepaid land lease payments	13	102,254	95,105
Investment properties	14	143,296	—
Goodwill		2,956	2,956
Available-for-sale investment	15	20,921	20,921
Deposit paid for acquisition of property, plant and equipment	13	89,280	9,502
Deferred tax assets		7,106	7,106
Accounts and other receivables due after one year	16	280,774	191,991
Pledged bank deposits		15,000	—
		<b>2,369,308</b>	2,054,209
<b>CURRENT ASSETS</b>			
Prepaid land lease payments	13	2,792	2,554
Accounts and other receivables and prepayments	16	1,290,303	1,232,692
Pledged bank deposits		68,809	20,794
Bank balances and cash		221,141	158,339
		<b>1,583,045</b>	1,414,379
<b>CURRENT LIABILITIES</b>			
Accounts and other payables	17	552,808	430,243
Amounts due to directors		1,505	2,833
Amounts due to non-controlling interests of a subsidiary		1,644	1,644
Derivative financial liabilities in relation to warrants	21	626	—
Tax payable		135,211	111,033
Bank borrowings	18	677,818	592,349
Other borrowings		709	1,362
		<b>1,370,321</b>	1,139,464
<b>NET CURRENT ASSETS</b>		<b>212,724</b>	274,915
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,582,032</b>	2,329,124



## Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
<b>CAPITAL AND RESERVES</b>			
Share capital	19	85,110	71,592
Reserves		1,954,060	1,712,540
Equity attributable to owners of the Company		2,039,170	1,784,132
Non-controlling interests		154,793	150,783
<b>TOTAL EQUITY</b>		<b>2,193,963</b>	1,934,915
<b>NON-CURRENT LIABILITIES</b>			
Amounts due to non-controlling interests of a subsidiary		86,533	89,333
Deferred tax liabilities		16,895	17,753
Bank borrowings	18	28,057	39,058
Other borrowings		33,843	32,939
Convertible bonds	20	213,292	198,461
Derivative financial liabilities embedded in convertible bonds	20	9,449	14,423
Derivative financial liabilities in relation to warrants	21	—	2,242
		388,069	394,209
		2,582,032	2,329,124

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	PRC statutory reserve RMB'000 (note (i))	Other reserve RMB'000 (note (ii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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
At 1 January 2015 (audited)	71,592	520,567	—	19,658	204,554	967,761	1,784,132	150,783	1,934,915
Profit and total comprehensive income for the period (unaudited)	—	—	—	—	—	68,577	68,577	4,010	72,587
Placing of shares (Note 19)	13,518	172,943	—	—	—	—	186,461	—	186,461
At 30 June 2015 (unaudited)	85,110	693,510	—	19,658	204,554	1,036,338	2,039,170	154,793	2,193,963

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 pursuant to the group reorganisation in 2011.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
<b>OPERATING ACTIVITIES</b>			
Operating cash flows before movements in working capital		172,576	173,608
Increase in accounts and other receivables and prepayments		(151,497)	(193,353)
Increase in accounts and other payables		76,245	70,023
Cash generated from operations		97,324	50,278
PRC income tax paid		(3,688)	(3,912)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>93,636</b>	<b>46,366</b>
<b>INVESTING ACTIVITIES</b>			
Consideration received from Hongji Construction	15	15,000	50,000
Interest received		168	3,383
Purchase of property, plant and equipment		(2,993)	(201,504)
Additions to investment properties		(109,597)	—
Placement of pledged bank deposits		(68,156)	(19,322)
Withdrawal of pledged bank deposits		5,141	—
Purchase of leasehold land		(8,693)	(6,991)
Deposit paid for acquisition of property, plant and equipment		(80,790)	(145)
Settlement of other payables in relation to purchase of property, plant and equipment in prior year		(14,526)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(264,446)</b>	<b>(174,579)</b>
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised		320,862	329,900
Net proceeds from issue of shares	19	186,461	96,185
Net proceeds from issue of warrants		—	237
Advance from independent third parties		118,750	64,370
Advance from a director		3,567	21,892
New other borrowings raised		1,544	20,980
Advance from non-controlling interests of a subsidiary		300	7,305
Repayment of bank borrowings		(246,394)	(395,642)
Repayment to independent third parties		(118,750)	(64,370)
Repayment to a director		(4,895)	(20,285)
Repayment of other borrowings		(2,070)	(11,557)
Repayment to non-controlling interests of a subsidiary		(3,481)	(12,350)
Interest paid		(22,282)	(17,828)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>233,612</b>	<b>18,837</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>62,802</b>	<b>(109,376)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>158,339</b>	<b>312,183</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash</b>		<b>221,141</b>	<b>202,807</b>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

## 2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2015, the Group has bank borrowings of approximately RMB677.8 million and other liabilities of approximately RMB692.5 million payable within one year from the end of the six months ended 30 June 2015 (“Reporting Period”). While the Group has only bank and cash balances of RMB221.1 million at 30 June 2015, 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 of the Company (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) most of the bank borrowings as at 30 June 2015 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 RMB75.0 million as at 30 June 2015 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 certain financial instruments that are measured at fair values at the end of each reporting 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 2014.

In addition, the following accounting policies are applicable upon new transactions that occurred in the Reporting Period.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure and borrowing costs eligible for capitalisation. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

The application of the amendments to Hong Kong Financial Reporting Standards issued by the HKICPA that are mandatorily effective for the Reporting Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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.

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 period are disclosed below.

### Estimated allowance for accounts and other receivables

Management regularly reviews the recoverability of accounts and other receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at 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. As at 30 June 2015, the carrying amount of accounts and other receivables is approximately RMB1,522,630,000, net of allowance for doubtful debts of approximately RMB49,259,000 (31 December 2014: carrying amount of accounts and other receivable of approximately RMB1,388,177,000, net of allowance for doubtful debts of approximately RMB49,259,000). No allowance was provided for accounts and other receivables of approximately RMB1,338,905,000 as at 30 June 2014.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Fair values 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 to explain the cause of fluctuations in the fair value.

As described in Notes 20, 21 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 embedded in the convertible bonds and the fair value of the derivative financial liabilities in relation to the warrants as at 30 June 2015 are approximately RMB9,449,000 (31 December 2014: RMB14,423,000) and RMB626,000 (31 December 2014: RMB2,242,000) respectively. Details of the assumptions used are disclosed in Notes 20, 21 and 24. The Directors believe that the valuation techniques and assumptions used by the valuer are appropriate in determining the fair values 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 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 work 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

#### 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)	Other Marine Business RMB'000 (Unaudited)	Dredging Related Construction Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Six months ended 30 June 2015</b>					
Segment revenue	220,190	103,517	72,179	—	395,886
Segment results	83,422	30,923	10,959	—	125,304
Unallocated other income					18,972
Other gains and losses					6,590
Unallocated corporate expenses					(15,037)
Finance costs					(36,234)
Group's profit before tax					99,595
<b>Six months ended 30 June 2014</b>					
Segment revenue	203,065	129,310	85,148	33,194	450,717
Segment results	71,750	37,593	24,614	3,027	136,984
Unallocated other income					25,465
Other gains and losses					(13,443)
Unallocated corporate expenses					(22,052)
Finance costs					(26,816)
Group's profit before tax					100,138

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, other gains and losses, 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 6. OTHER INCOME

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Government financial incentive (note)	5,517	7,003
Bank interest income	168	3,383
Interest income in respect of non-current accounts receivables	7,708	9,864
Interest income in respect of consideration receivable	2,189	5,189
Sundry income	4,059	273
	<b>19,641</b>	<b>25,712</b>

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 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 RMB5,517,000 (six months ended 30 June 2014: RMB7,003,000). Accordingly, the Group recognised such amount as other income for the Reporting Period, respectively.

### 7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Fair value changes of derivative financial liabilities embedded in convertible bonds (Note 20)	4,974	(1,129)
Fair value changes in relation to warrants (Note 21)	1,616	(12,314)
	<b>6,590</b>	<b>(13,443)</b>



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 8. FINANCE COSTS

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	19,425	14,936
Others	1,159	36
Effective interest on convertible bonds (Note 20)	17,687	15,354
Total borrowing costs	38,271	30,326
Less: amounts capitalised in the cost of qualifying assets	—	(2,100)
	38,271	28,226

Borrowing cost capitalised during the six months ended 30 June 2014 of approximately RMB2,100,000 arose on the general borrowing pool calculated by applying a capitalisation rate of 7.20% per annum. Borrowing cost was capitalised as part of the construction in progress in respect of a factory at Yancheng City at phase one. Phase one was complete in year 2014.

## 9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	27,866	37,987
Deferred taxation	(858)	(902)
	27,008	37,085

### (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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 10. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	50,158	48,392
Net foreign exchange (gain) loss	(2,056)	358
Sub-contracting charges included in operating costs	114,905	147,711

### 11. 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	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	68,577	54,742
	'000	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	996,939	832,789
Effect of dilutive potential ordinary shares: — Share options	—	11,683
Weighted average number of ordinary shares for the purpose of diluted earnings per share	996,939	844,472

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 both periods does not assume the conversion of the Company's outstanding convertible bonds, 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, since the exercise price of the warrants was higher than the average market price of the shares during the Reporting Period.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 12. 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 2014: nil).

## 13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/PREPAID LAND LEASE PAYMENTS/DEPOSIT PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group made additions to property, plant and equipment and prepaid lease payments of approximately RMB31,251,000 and RMB8,693,000 respectively (six months ended 30 June 2014: RMB36,184,000 and RMB6,991,000 respectively). The Group is in the process of obtaining the relevant state-owned land use rights certificates in respect of the additions to prepaid lease payments during the Reporting Period.

Included in the deposit paid for acquisition of property, plant and equipment, amount of RMB70,000,000 represents the full payment to acquire an office in the PRC for further development of environmental protection dredging business. The office is under construction and is expected to be delivered in early 2016. Accordingly, the amounts are classified as deposits paid for acquisition of property, plant and equipment.

## 14. INVESTMENT PROPERTIES

During the six month ended 30 June 2015, the Group made additions to investment properties of approximately RMB143,296,000. The investment properties remain incompleting at 30 June 2015.

The fair value, including the portion of prepaid lease payments which is relevant to the investment properties with carrying amount of approximately RMB38 million, of the Group's investment properties at 30 June 2015 was RMB199 million. The fair value has been arrived at based on a valuation carried out by 江蘇仁禾中衡工程諮詢房地產估價有限公司, independent valuers not connected with the Group.

The fair value was determined using the residual method by taking into account of net income derived from the properties, less estimated costs to completion and expected developed profit margin so as to determine the value of the proposed development as if these were completed as at the date of valuation. The rental income included in the residual method was principally based on income approach by taking into account the recent sales transactions of completed properties or rental information in the relevant market as publicly available to determine the potential rental income of the completed investment properties, current rents passing and the reversionary income potential of tenancies. Appropriate discount rate was selected and adopted for the discounted cash flow analysis.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value of the Group's investment properties is categorised into level 3 of the fair value hierarchy.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 15. 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 鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co., Ltd\*) ("Yongheng") which sole assets are two parcels of land in the PRC, 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").

Concurrent with the 1st Agreement, 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 agreed to transfer 85% equity interest in Yongheng together with 85% of the shareholder's loan for a total consideration of RMB252,968,000 (the "Consideration") to 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"). The Group's remaining 15% equity interest of RMB20,921,000 in Yongheng is classified as an available-for-sale investment and 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 of the Company are of the opinion that the fair value cannot be measured reliably.

The Consideration is 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 ended 31 December 2014; and
- (iv) 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. The payments as set out in point (i), (ii) and (iii) were fully settled as at 31 December 2014.

The outstanding amount recoverable from Hongji Construction is included in "accounts and other receivables" (see Note 16).

The shareholder's loan to Yongheng is unsecured, interest-free and has no fixed repayment terms. At 31 December 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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 16. ACCOUNTS AND OTHER RECEIVABLES

	<b>At 30 June 2015 RMB'000 (Unaudited)</b>	At 31 December 2014 RMB'000 (Audited)
Non-current:		
Accounts receivables (notes (i) & (ii))	<b>256,987</b>	171,557
Value-added tax recoverable (note (iv))	<b>3,983</b>	5,630
Shareholder's loan to Yongheng (defined in Note 15)	<b>14,804</b>	14,804
Others	<b>5,000</b>	—
	<b>280,774</b>	191,991
Current:		
Accounts receivables (notes (i) and (ii))	<b>1,155,768</b>	1,101,026
Bills receivable (note (iii))	<b>8,575</b>	7,000
Government financial incentive receivables (Note 6)	<b>17,461</b>	11,944
Deposits and prepayments	<b>32,816</b>	18,943
Value-added tax recoverable (note (iv))	<b>4,750</b>	6,042
Consideration receivable from Hongji Construction	<b>69,035</b>	81,846
Others	<b>1,898</b>	5,891
	<b>1,290,303</b>	1,232,692
	<b>1,571,077</b>	1,424,683

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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 16. ACCOUNTS AND OTHER RECEIVABLES (Continued)

notes: (Continued)

(i) (Continued)

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

#### Aged analysis of the Group's accounts receivables

	<b>At 30 June 2015 RMB'000 (Unaudited)</b>	At 31 December 2014 RMB'000 (Audited)
0-30 days	154,515	188,827
31-60 days	56,641	94,295
61-90 days	45,011	58,605
91-180 days	128,361	93,243
181-365 days	412,097	372,471
1 year-2 years	431,080	299,113
Over 2 years	185,050	166,029
	<b>1,412,755</b>	1,272,583

Included in the accounts receivables balance is retention money of approximately RMB112,550,000 (31 December 2014: RMB163,000,000) as at 30 June 2015.

The amount of accounts receivables which were past due based on the terms of contracts, as at the end of each 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

	<b>At 30 June 2015 RMB'000 (Unaudited)</b>	At 31 December 2014 RMB'000 (Audited)
0-30 days	22,633	—
31-60 days	41,331	70,144
61-90 days	31,356	37,331
91-180 days	270,713	196,149
181-365 days	254,646	159,544
1 year-2 years	267,637	184,577
Over 2 years	152,050	152,924
	<b>1,040,366</b>	800,669

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 16. 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 the Reporting Period in view of the financial background of these customers and their historical and subsequent repayments.

Included in account receivables as at 30 June 2015 was the principal amount of approximately RMB108,103,000 (31 December 2014: RMB120,103,000) due from a customer of which the related dredging project has been suspended since January 2014 due to change in use of relevant reclaimed areas by the Government. The customer has signed an agreement with the Group to repay approximately RMB51,680,000 before 31 December 2015 and another RMB40,000,000 before 31 December 2016. The balances of account receivable are unsecured and interest-free. Taking the above arrangement into account, allowance for doubtful debts of RMB49,259,000 was recognised as at 31 December 2014. The customer has repaid RMB12,000,000 during the Reporting Period. After assessing the repayment ability and the repayment pattern of the customer, the management is confident that the commitment of the customer could be fulfilled. As a result, no further impairment was provided.

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

(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 RMB7,708,000 (six months ended 30 June 2014: RMB9,864,000) was recognised.

(iii) The aged analysis of the Group's bills receivable, presented based on the relevant dates of certification of work, at the end of each reporting period is as follows:

### Aged analysis of the Group's bills receivable

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
0-30 days	—	300
31-60 days	50	1,000
61-90 days	—	3,000
91-180 days	4,620	1,650
Over 180 days	3,905	1,050
	<b>8,575</b>	7,000

(iv) As at 30 June 2015, an amount of RMB7,129,000 (31 December 2014: RMB10,471,000) 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 RMB4,750,000 (31 December 2014: RMB6,042,000). Accordingly, the remaining value-added tax recoverable of RMB2,379,000 (31 December 2014: RMB4,429,000) is not expected to be recovered within one year from the end of the Reporting Period and is classified as non-current.

Furthermore, value-added tax paid of approximately RMB1,604,000 by the Group in connection with its construction in-progress could be set-off against future value added tax payable generated from the Group. As the amount is not expected to be recovered within one year from the end of reporting, RMB1,604,000 (31 December 2014: RMB1,201,000) is classified as non-current.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 17. ACCOUNTS AND OTHER PAYABLES

	<b>At 30 June 2015 RMB'000 (Unaudited)</b>	At 31 December 2014 RMB'000 (Audited)
Accounts payables		
Sub-contracting charge	<b>253,824</b>	203,161
Chatering cost	<b>2,291</b>	796
Fuel cost	<b>24,647</b>	26,387
Repair and maintenance	<b>11,495</b>	11,341
Others	<b>2,625</b>	1,677
	<b>294,882</b>	243,362
Bills payable	<b>13,809</b>	5,653
Other payables		
Payable for property, plant and equipment	<b>62,073</b>	49,452
Payable for investment properties	<b>33,698</b>	—
Accrued other taxes	<b>91,477</b>	86,282
Accrued staff salaries and welfare	<b>16,129</b>	17,736
Receipts in advance	<b>9,010</b>	5,789
Interest on convertible bonds due within one year	<b>5,759</b>	5,759
Others	<b>25,971</b>	16,210
	<b>244,117</b>	181,228
	<b>552,808</b>	430,243



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 17. ACCOUNTS AND OTHER PAYABLES (Continued)

The aged analysis of the Group's accounts payables presented based on the invoice dates, 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:

	<b>At 30 June 2015 RMB'000 (Unaudited)</b>	At 31 December 2014 RMB'000 (Audited)
0-30 days	<b>88,554</b>	101,484
31-60 days	<b>5,511</b>	38,087
61-90 days	<b>12,460</b>	12,001
91-180 days	<b>26,166</b>	6,059
Over 180 days	<b>162,191</b>	85,731
	<b>294,882</b>	243,362

### 18. BANK BORROWINGS

During the Reporting Period, the Group raised bank loans of RMB320,862,000 (six months ended 30 June 2014: RMB329,900,000) and repaid bank loans of RMB246,394,000 (six months ended 30 June 2014: RMB395,642,000). As at 30 June 2015, the effective interest rates of the bank borrowings ranged from 3.55% to 7.75% (31 December 2014: 3.79% to 7.80%) per annum.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 19. SHARE CAPITAL

	Number of shares	Amount HK\$'000	RMB equivalent amount RMB'000
Ordinary shares of HK\$0.10 each			
Authorised			
At 1 January 2014, 30 June 2014, 31 December 2014 and 30 June 2015	10,000,000,000	1,000,000	N/A
Issued and fully paid			
At 1 January 2014	800,000,000	80,000	67,200
Exercise of share options (note (i))	55,600,000	5,560	4,392
At 30 June 2014 and 31 December 2014	855,600,000	85,560	71,592
Placing of shares (note (ii))	171,120,000	17,112	13,518
At 30 June 2015	1,026,720,000	102,672	85,110

notes:

- (i) During the six months ended 30 June 2014, options were exercised to subscribe for 48,000,000 and 7,600,000 shares at an option exercise price of HK\$2.192 and HK\$2.176 respectively.
- (ii) During the six months ended 30 June 2015, the placing of 171,120,000 shares of the Company at a placing price of HK\$1.38 per share was completed. The aggregate net proceeds from the placing was approximately HK\$236.0 million (equivalent to approximately RMB186.5 million).

### 20. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS

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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 20. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS (Continued)

The convertible bonds contain two components, the host debt component and the conversion option. The convertible bonds are denominated in Hong Kong Dollar ("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 RMB'000	Derivative component RMB'000	Total RMB'000
As at 1 January 2014	177,815	37,768	215,583
Amortisation using effective interest method	32,165	—	32,165
Changes in fair value	—	(23,345)	(23,345)
Interest settlement	(5,760)	—	(5,760)
At 31 December 2014	204,220	14,423	218,643
Amortisation using effective interest method (Note 8)	17,687	—	17,687
Changes in fair value	—	(4,974)	(4,974)
Interest settlement	(2,856)	—	(2,856)
At 30 June 2015	219,051	9,449	228,500

The convertible bonds at the end of the reporting periods are represented by:

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
Interest payable within one year included in other payables	5,759	5,759
Convertible bonds included as non-current liabilities	213,292	198,461
	<b>219,051</b>	204,220

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 20. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS (Continued)

Fair values of the derivative component (representing the conversion options of the convertible bonds) at 31 December 2014 and 30 June 2015 are determined using Binomial Model by independent valuer, with inputs as follows:

	31 December 2014	30 June 2015
Valuation date share price	HK\$1.45	<b>HK\$1.57</b>
Conversion price	HK\$2.70	<b>HK\$2.70</b>
Time to maturity	1.85 years	<b>1.36 years</b>
Risk-free rate	0.51%	<b>0.29%</b>
Volatility	65.0%	<b>53.8%</b>
Dividend yield of the Company	0.00%	<b>0.00%</b>

### 21. DERIVATIVE FINANCIAL LIABILITIES IN RELATION TO 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 2015, net fair value gain of RMB1,616,000 (six months ended 30 June 2014: net fair value loss of RMB12,314,000) was recognised through profit or loss.

At 30 June 2015 and 31 December 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 21. DERIVATIVE FINANCIAL LIABILITIES IN RELATION TO WARRANTS (Continued)

Fair values of the Warrants at 31 December 2014 and 30 June 2015 are determined using Binomial Model by independent valuer, with inputs as follow:

	31 December 2014	30 June 2015
Valuation date share price	HK\$1.45	<b>HK\$1.57</b>
Exercise price	HK\$2.70	<b>HK\$2.70</b>
Time to maturity	1.04 years	<b>0.55 years</b>
Risk-free rate	0.15%	<b>0.02%</b>
Volatility	63.9%	<b>51.8%</b>
Dividend yield of the Company	0.00%	<b>0.00%</b>

### 22. CAPITAL COMMITMENTS

	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
Capital commitments contracted but not provided for relating to the followings:		
— Acquisition of property, plant and equipment	<b>3,056</b>	3,301
— Additions to investment properties in relation to construction costs	<b>196,151</b>	—
— Investment in a sino-foreign joint venture in the PRC	<b>24,000</b>	24,000
— Investment in conducting micro-financing business (note)	<b>320,000</b>	—

note: On 16 May 2015, the Company entered into an agreement (the "Agreement") to set up a company which principally conducts lending and venture capital financing business in the PRC targeting small-and-middle-size companies in the technology sector. Pursuant to the Agreement, the proposed registered capital of RMB400 million will be contributed in proportion to the respective equity holdings of the Company and two other investors of RMB320 million, RMB40 million and RMB40 million respectively.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 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:

	<b>30 June 2015 RMB'000 (Unaudited)</b>	31 December 2014 RMB'000 (Audited)
Dredgers included in property, plant and equipment	<b>773,742</b>	918,638
Building included in property, plant and equipment	<b>25,618</b>	24,545
Prepaid land lease payments	<b>96,382</b>	97,659
Accounts receivables (note)	<b>58,844</b>	70,844
Pledged bank deposits	<b>83,809</b>	20,794
	<b>1,038,395</b>	1,132,480

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 receivables relating to the relevant dredging projects in the event of the Group's breach of the terms of bank borrowings. As at 30 June 2015, outstanding carrying amount of these accounts receivables relating to these projects amounting to RMB58,844,000 (31 December 2014: RMB70,844,000) and the related bank borrowings amounted to RMB50,389,000 (31 December 2014: RMB60,717,000).

In addition, the Group's bank borrowing to the extent of RMB50,389,000 (31 December 2014: RMB60,717,000) was secured by one of the Group's dredgers with a carrying amount of RMB249,136,000 (31 December 2014: RMB255,968,000) being held as a collateral.

### 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).

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For the six months ended 30 June 2015

### 24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

#### 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 2015 and 31 December 2014:

Category	Fair value hierarchy	Fair value at		Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
		30 June 2015 RMB'000	31 December 2014 RMB'000			
Derivative financial liabilities embedded in convertible bonds	Level 3	9,449	14,423	Binomial Model	Volatility	The higher the volatility, the higher the fair value, vice versa.
Derivative financial liabilities in relation to warrants	Level 3	626	2,242	Binomial 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.

#### Other price risk

For the period ended 30 June 2015, the Group is required to estimate the fair value of the derivative financial liabilities embedded in the convertible bonds and derivative financial liabilities in relation to 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 2015 will be increased by approximately RMB28 million and RMB3 million respectively (31 December 2014: RMB26 million and RMB7 million)/decreased by approximately RMB4 million and RMB0.05 million respectively (31 December 2014: RMB12 million and RMB0.3 million) 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. Carrying amount of the derivative financial liabilities of the convertible bonds and derivative financial liabilities in relation to warrants as at 30 June 2015 would be increased by approximately RMB18 million and RMB7 million respectively (31 December 2014: RMB26 million and RMB4 million)/decreased by approximately RMB2 million and RMB0.2 million respectively (31 December 2014: RMB12 million and RMB0.8 million) 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.

# Notes to the Condensed Consolidated Financial Statements

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## 25. RELATED PARTY DISCLOSURES

### (i) Related party transactions

During the Reporting Period, the Group paid rentals of RMB48,000 (six months ended 30 June 2014: RMB46,000) to certain companies controlled by Mr. Liu Kaijin ("Mr. Liu"), the chief executive officer, joint chairman and the ultimate controlling shareholder of the Company, 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 2015 and 2014. As at 30 June 2015, the amount due to Mr. Liu was RMB736,000 (31 December 2014: RMB2,167,000).

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

As at 30 June 2015 and 31 December 2014, 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 Shuhua, a director of the Company; and
- (c) two properties owned by certain non-controlling shareholders of the Company's subsidiary.

In addition, as at 30 June 2015, the Group's bank borrowings to the extent of HK\$121,040,000 (equivalent to RMB95,623,000) (31 December 2014: HK\$257,952,000 (equivalent to RMB203,782,000)) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by two parcels of land owned by Yongheng. Another bank borrowing of the Group of RMB20 million (31 December 2014: RMB20 million) 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	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Short-term benefits	1,270	1,819
Post-employment benefits	6	7
	<b>1,276</b>	1,826



## Notes to the Condensed Consolidated Financial Statements

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### 26. EVENT AFTER THE REPORTING PERIOD

The Group has foreign currency transactions which expose the Group to foreign currency risk. At the end of Reporting Period, the carrying amounts of foreign currency denominated monetary assets and liabilities that are considered to be significant by the management is as follows:

	<b>Assets</b> RMB'000	<b>Liabilities</b> RMB'000
United States Dollar (US\$)	—	77,385
HK\$	7,990	213,292

In view of the significant RMB depreciation in August 2015, the following table details the Group's sensitivity to a 5% depreciation against foreign currency and all other variable were held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the Reporting Period for a 5% change in foreign currency rates. On this basis, there will be a decrease in post-tax profit where the functional currency of the relevant group entities weaken against US\$ or HK\$ by 5% at 30 June 2015.

	<b>Decrease in post-tax profit</b> RMB'000
US\$	1,644
HK\$	9,674