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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 871

INTERIM REPORT 2011

Contents

Corporate Information

Board of Directors

Executive Directors:

Mr Liu Kaijin *(Chief Executive Officer)*
Ms Zhou Shuhua

Non-Executive Director:

Mr Dong Liyong *(Chairman)*

Independent Non-Executive Directors:

Ms Leung Mei Han
Mr Zhang Jun
Ms Peng Cuihong

Audit Committee

Ms Leung Mei Han *(Chairman)*
Mr Zhang Jun
Ms Peng Cuihong

Remuneration Committee and Nomination Committee

Mr Dong Liyong *(Chairman)*
Ms Leung Mei Han
Ms Peng Cuihong

Authorised Representatives

Mr Dong Liyong
Ms Wong Elsie

Company Secretary

Ms Wong Elsie *(HKICPA)*

Legal Advisor

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

Compliance Advisor

Guotai Junan Capital Limited

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

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

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
Panhuang Town, 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

Principle Share Registrar

Codan Trust Company (Cayman) Limited

Hong Kong Share Registrar

Tricor Investor Services Limited

Website

www.xiangyu.com.hk

Management Discussion and Analysis

Financial Review

Overview. The following summarised certain financial highlights of the Xiangyu Dredging Holdings Limited (the "Company") and its subsidiaries (the "Group"):

	Six months ended 30 June		
	2011	2010	Percentage
	RMB'000	RMB'000	increase
		(Unaudited)	
Revenue	**461,577**	159,853	188.8%
Gross profit	**183,830**	89,967	104.3%
Net profit	**135,447**	63,885	112.0%

The Group has two reportable segments, namely (i) Dredging Business and (ii) Dredging Related Construction Business. Dredging Related Construction Business refers to ancillary construction work offered by customers to the existing dredging services. The decrease in revenue and profit in this segment was due to our focus on the Dredging Business which enjoy higher gross profit margin. The Group may take up contracts of Dredging Related Construction Business if they offer reasonable returns to the Group or benefit the Group as a whole.

Revenue. During the period, the Group recorded a strong growth in revenue and profit. Revenue for the six months ended 30 June 2011 was about RMB461.6 million, representing an increase of about RMB301.7 million as compared with about RMB159.9 million in the corresponding period of 2010. The revenue growth was primarily attributable to increase in capital and reclaimed dredging activities in the People's Republic of China (the "PRC"), which led to increased demands for the Group's dredging services. The number of major dredging projects increased substantially comparing these two periods.

Operating cost and gross profit. Operating cost for the dredging business for the six months ended 30 June 2011 amounted to approximately RMB277.7 million, representing an increase of about RMB207.8 million or 297.3% as compared with about RMB69.9 million in the corresponding period of 2010. The increases in operating cost is mainly attributed to the increase in operating revenue in the period, the increase in fuel cost and certain one-off moving cost of one of our dredgers. Due to the increase in revenue for the six months ended 30 June 2011, our gross profit rose from about RMB90.0 million in the same period of 2010 to about RMB183.8 million in the six months ended 30 June 2011.

Marketing and promotion expenses. Marketing and promotion expenses only accounted for about 0.5% and 0.6% of revenue for the six months ended 30 June 2011 and 2010, respectively, and were remained at a relative low level. For the six months ended 30 June 2011 marketing and promotion expenses, were about RMB2.4 million, representing an increase of about RMB1.4 million, or 140.0%, as compared with about RMB1.0 million in the corresponding period of 2010. The increase was due to more marketing activities were made in order to obtain new contracts in the current period.

Administrative expenses. Administrative expenses for the six months ended 30 June 2011 were about RMB7.3 million, representing an increase of about RMB4.8 million, or 192.0%, as compared with about RMB2.5 million in the corresponding period of 2010. The increase was mainly attributable to the increase in office expense, audit fee and staff cost.

Other income. Other income for the six months ended 30 June 2011 amounted to about RMB26.9 million, representing an increase of about RMB26.89 million or 2,689.0%, from about RMB0.01 million for the corresponding period of 2010, primarily attributable to financial incentive from the local government to support the growth of the Group recorded in the first half of 2011.


Financial Review (Continued)

Income tax expense. Due to the increase in profit before tax as a result of the strong growth in revenue, income tax expense for the six months ended 30 June 2011 amounted to about RMB52.2 million, representing an increase of about RMB30.8 million, or 143.9%, from about RMB21.4 million in the corresponding period of 2010.

Profit for the period and earnings per share. Earnings per share is calculated based on profit for the period over the weighted average number of shares of the Company (the "Shares"). Profit for the six months ended 30 June 2011 was about RMB135.4 million, representing an increase of about RMB71.5 million from about RMB63.9 million in the corresponding period of the six months ended 30 June 2010. For the purpose of calculating basic earnings per share, the weighted average number of Shares for 2010 was calculated as if the Capitalisation Issue (as defined in note 20(v) to the financial statements) had taken place at the beginning of that period. Furthermore, as the capital injection was made by Mr Liu Kaijin ("Mr Liu"), the controlling shareholder of the Company, to the Group in the second half of 2010 (details of which are set out in the Company's prospectus dated 8 June 2011), the weighted average number of Shares for the six months ended 30 June 2010 was small, resulting in higher earnings per share for the six months ended 30 June 2010.

Liquidity and Financial Resources and Capital Structure

Included in net current assets were cash and various bank deposits as at 30 June 2011 totalling about RMB582.4 million (31 December 2010: RMB12.5 million). Total bank borrowings as at 30 June 2011 were about RMB169.9 million (31 December 2010: RMB40.0 million), and these were mainly used to finance the working capital and other general corporate purposes. Such borrowings are at variable rate and denominated in Renminbi. The gearing ratio, which is calculated by the Group's bank borrowings over total assets, of the Group as at 30 June 2011 was 10.8% (31 December 2010: 6.0%). The increase was mainly due to increase in bank borrowings during the period.

With regard to debtor's turnover days and creditor's turnover days, debtor's turnover days was reduced from 210 days as of 31 December 2010 to 147 days as of 30 June 2011 and creditor's turnover days was reduced from 194 days as of 31 December 2010 to 95 days as of 30 June 2011. This was mainly due to increase in revenue and operating cost and acceleration of collections and payments during this period.

Following the listing of the Shares on 20 June 2011 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group's liquidity position became stronger and this will enable the Group to expand in accordance with its business directions.

Material Acquisitions and Disposals

Save as disclosed in the Company's prospectus dated 8 June 2011, there were no other material acquisitions or disposals of any subsidiaries, associates or joint ventures of the Group during the six months ended 30 June 2011.

Capital Commitments and Contingent Liabilities

As at 30 June 2011, the Group had pledged bank deposits with an aggregate carrying value of approximately RMB60 million (31 December 2010: nil) to secure bank borrowings.

As at 30 June 2011, the Group had capital commitments committed but not provided for in respect of acquisition of a dredger which amounted to about RMB173.8 million (31 December 2010: nil) and other plant and equipment amounted to about RMB3.0 million (31 December 2010: RMB0.1 million in respect of office renovation).

As at 30 June 2011 and 31 December 2010, the Group did not have any material contingent liability.

Risk Management Policies

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

As most of the Group's trading transactions, monetary assets and liabilities are denominated mainly in Renminbi, which is the Group's operating and reporting currencies, and except 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. As at the end of each reporting period, no related hedges were made by the Group.

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

As for credit risk, the Group continues its policy of only trading with customers with high creditability. In addition, the Group will continue to monitor closely the trade debtors to minimise potential impairment losses.

With the liquidity risk, the Group will continue maintaining a balance between continuity of funding and the flexibility through the use of bank borrowings. With the successful listing of the Shares on 20 June 2011, the liquidity position was enhanced and the Group will be in a better position to carry out its development plan at a pace relatively quicker than before.

As for fair value, the Group consider that carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Business Review

The dredging market in the PRC continues to be one of the fastest growing sectors in the PRC. According to the Frost & Sullivan Report, total dredging volume in China grew at a compound annual growth rate ("CAGR") of 31.5% from 2006 to 2010 and is expected to continue growing at approximately 27.1% CAGR from 2011 to 2015. Currently, the China dredging market faces two major constraints: a shortage of dredging capacity from qualified dredging companies and relatively low dredging efficiency.

Through its stable client relationship and project pipeline and with its project management team of high efficiency, the Group has consolidated its market position as the largest private dredging group in China in 2010 (in terms of dredging volume). With our devoting project management teams, our revenue recorded an increase of about 188.8% and our net profit increased more than one fold for the six months ended 30 June 2011 over the same period in 2010. During the six months ended 30 June 2011, we entered into new dredging contracts (including extension of contracts on hand) whose contract sums amounted to about RMB2.5 billion, resulting at the backlog amount (pre-tax) of approximately RMB3.2 billion as of 30 June 2011. During the six months ended 30 June 2011, the Group's dredging projects were mainly located in Caofeidian, Dalian, Tianjin and Jingtang Harbour. Further details of these projects are set out in the Company's prospectus dated 8 June 2011. The below sets forth information and development regarding our major dredging projects.


Business Review (Continued)

Capital and reclamation dredging projects

Project	Details
Caofeidian Industrial Area Project (Hebei Province)/ Dalian Changxingdao Harbor Project (Liaoning Province)/ Tianjin Port Project (Tianjin)	— These projects are long term expansion projects of major ports in the PRC, of which Caofeidian Industrial Area Project was included in PRC government's Eleventh Five Year Plan and is expected to continue until about 2030; Dalian Changxingdao Harbor Industrial Area was designated by the State Council as a National Economic and Technological Development Area in 2010; and Tianjin Port project was a port expansion project in Tianjin Port. — As the size of these projects is large, dredging works are divided into many phases. The Group has in the past provided the said dredging services on a continuous basis. The contract sums for new contracts (including extension of contracts on hand) entered into in respect of these projects amounted to about RMB0.7 billion in total during the period ended 30 June 2011.
Jingtang Harbor Project (Hebei Province)	— This is a dredging project at a tourism area in Hebei Province, which is a capital and reclamation dredging project. The agreement for this project was entered into in 2010 and the contract sum amounted to approximately RMB0.8 billion. The remaining backlog on hand as of 30 June 2011 amounted to about RMB0.6 billion.

Outlook

The strong project backlogs on hand demonstrate the continuous growth potential of the Group's business, and will enable the Group to increase its market share, enhance its competitiveness and reputation in dredging market of the PRC. The Group will ride on its strong project pipeline to secure more contracts and to capture the growth in the dredging industry. The projects in the pipeline are as follows:

Capital and reclamation dredging projects

Project	Details
Dongying Harbor Project (Shandong Province)	— The Dongying Harbor was designated by the State Council as the leading port of the Yangtze River Delta in Shandong Province under the State Council's "Development Plan for the Efficient Ecological and Economic Zone in the Yangtze River Delta" (長江三角洲高效生態經濟區發展規劃). The Group entered into a letter of intent (non-binding) directly with the project owner of Dongying Harbor Project in 2010 for the phase one of the port expansion project in Dongying Harbor, which initially indicates its allowance for the Group to participate in the dredging works of this project. Tender procedure relating to embankment under phase one of this project will start shortly. — The management has closely monitored its progress and works are expected to commence in 2011.

Outlook (Continued)

Capital and reclamation dredging projects (Continued)

Project	Details
Yancheng City Project (Jiangsu Province)	— The Yancheng City project forms part of the ten-year Jiangsu Coastal Development Project, and its total expenditure is estimated to be RMB105.5 billion. — The Group has entered into a five-year framework agreement (non-binding) directly with the project owner for engaging the Group in dredging works involving output of no less than an aggregate of 120 million cubic meters over 2011 and 2012 (estimated contract sum of about RMB1.2 billion). — The project is expected to commence by end of 2011.

In addition, the Group has continued its efforts to expand and diversify its services by building up our environmental protection dredging business.

Environmental protection dredging and water management projects

Project	Details
Wuhan City Projects (Hubei Province)	— We entered into a series of letters of intent and framework agreements (non-binding) for certain dredging projects in Donghu, Nanhu and Guanqiaohu of Wuhan City since 2010, including a cooperation memorandum (non-binding) directly signed with Wuhan Water Resources Development Investment Group Company Limited (武漢水資源發展投資集團有限公司), the project owner of environmental protection dredging projects in Wuhan City. Pursuant to this memorandum, subject to the Group (i) importing certain foreign technology and equipment and (ii) successfully completed a trial project for silt removal and dehydration in Guanqiaohu, the Group may participate in the lake clean-up works for Donghu and Nanhu in accordance with the legal procedures. — In 2011, the Group imported a sludge treatment equipment, namely "Mud Master" from the Switzerland. Based on information from the Swiss supplier ("the "Supplier"), Mud Master is the world's first container-size mobile sludge separation and dehydration equipment for lakes and ponds. The Mud Master was delivered to Wuhan in August 2011, and installation and testing of the equipment is under progress. We expect the trial project will be completed within this year. After that, we will work with the Wuhan partner to develop cooperation of a larger extent.


Outlook (Continued)

Environmental protection dredging and water management projects (Continued)

Project	Details
Wuhan City Projects (Hubei Province) (Continued)	— In July 2011, we entered into a 5-year exclusive strategic alliance with the Supplier, pursuant to which the Group was appointed by the Supplier as its exclusive agent/distributor in certain Asian territories, including the PRC, and the Group has an exclusive right to import, use and sell a series of the Supplier's dredgers, weed harvesters, trash hunters and mud processing/dehydration equipment/installations in such Asia territories. With the strategic alliance, the Group believes that our right to use the Mud Master is secured, which will enable our development of a closer cooperation relationship with the Supplier.
Yandu Rivers Project (Jiangsu Province)	— This is a contract directly signed with the project owner to conduct environmental protection dredging works for restoring the aqua-ecology, treating polluted waters in rivers and providing waterway improvement services in Yandu District of Yancheng City, Jiangsu Province.
	— This contract adopts a build-and-transfer model, i.e. the project owner will pay the Group by instalments based on volume of engineering works: about 40% will be paid when the works are inspected and accepted by the local government; 40% in about one-year time after that acceptance; and the remaining 20% in two-years time after that. In return, the project owner has agreed that the Group will be entitled to a return for no less than 25% in respect of the investment on an annual basis.

On top of the above, the Group has been actively tracking down other sizeable dredging and dredging related projects.

Development from end of Reporting Period

Subsequent to 30 June 2011, on 25 July 2011, the Group entered into a 5-year strategic alliance with the Supplier pursuant to which the Group was appointed as the exclusive agent/distributor of the Supplier in certain Asian territories, including the PRC. Further details are set out in the "outlook" paragraph above.

Use of Proceeds Raised from Initial Public Offerings ("IPO")

On 20 June 2011, Shares became listed on the Main Board of the Stock Exchange. Total net proceeds received by the Company from the IPO after deducting all related expenses was approximately HK$608 million, equivalent to about RMB511 million.

As stated in the prospectus of the Company dated 8 June 2011, the Company intends to use the net proceeds for (i) the purchase of dredgers and dredging equipment; (ii) improvement of existing equipment and machinery of dredgers; and (iii) support the expansion of the Group's business including the setting up of new project offices and computerisation of management information systems.

Use of Proceeds Raised from Initial Public Offerings ("IPO") (Continued)

As at 30 June 2011, part of the net proceeds raised from IPO was applied in the manner as stated in the prospectus of the Company dated 8 June 2011. The net proceeds pending their usage were held by us in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC.

Related Party Transactions

Save as disclosed elsewhere in this report, during the six months ended 30 June 2011, there were no other material related party transactions.

Share Option Scheme

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

The directors of the Company ("Directors") consider the Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Eligible participants of the Scheme include all Directors and employees of the Group, suppliers, customers, technical consultants who provide services to the Group, shareholders of the subsidiaries of the Group and joint venture partners, etc.

Under the Scheme, the Directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary Shares at the highest of (i) the closing price of Shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share. The offer of a grant of options may be accepted within 21 days from the date of the offer. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The exercise period of the options granted is determined by the Directors, and commences after a certain vesting period and ends in any event not later than 10 years from the respective date when the share options are granted, subject to the provisions for early termination thereof.

During the period from the effective date of the Scheme to 30 June 2011, no share option has been granted, expired, lapsed or exercised.

Employees and Remuneration Policy

As at 30 June 2011, the Group had a workforce of 187 employees (31 December 2010: 184). The Group's remuneration policy is basically determined by the performance of individual employees and Directors and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and share option schemes.

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


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

As at 30 June 2011, the Directors and the Company's chief executives, 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 Securities and Future Ordinance ("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 for Securities Transactions by Directors of Listed Issuers ("Model Code"), or were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO:

Interests in the Company

			Long position		Short position	
Name of Director	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Liu Kaijin	Interest in controlled corporation	1	325,100,000	40.64%	—	—
Zhou Shuhua	Interest in spouse	1	325,100,000	40.64%	—	—
Dong Liyong	Interest in controlled corporation	2	156,291,000	19.54%	30,000,000	3.75%

Notes:

1. Mr Liu is the sole beneficial owner of Wangji Limited ("Wangji"), a company incorporated in the British Virgin Islands with limited liability, which is the direct owner of 325,100,000 Shares. Mr Liu's spouse is Ms Zhou Shuhua ("Ms Zhou") who is a Director. By virtue of the SFO, Ms Zhou is deemed to be interested in such 325,100,000 Shares.

2. Mr Dong Liyong ("Mr Dong") is the sole beneficial owner of Shen Wang Limited ("Shen Wang"), a company incorporated in the British Virgin Islands with limited liability, which is the direct owner of 156,291,000 Shares. A stock borrowing agreement dated 13 June 2011 was entered into between Shen Wang (as lender) and CCB International Capital Limited ("CCBI-Cap") (as borrower). Pursuant to the above agreement, Mr Dong is deemed to have short position of 30,000,000 Shares.

Interests in associated corporations

				Long position		Short position	
Name of Director	**Name of the associated corporation**	**Capacity**	Notes	**Share capital**	**Approximate percentage of total number of shareholding**	**Share capital**	**Approximate percentage of total number of shareholding**
Liu Kaijin	Wangji	Beneficial owner	1	200 ordinary shares	100%	200 ordinary shares	100%
	江蘇興宇港建有限公司 ("Jiangsu Xingyu")	Beneficial owner	1	Registered capital of RMB39,315,800	100%	—	—
Zhou Shuhua	Wangji	Interest in spouse	2	200 ordinary shares	100%	200 ordinary shares	100%
	Jiangsu Xingyu	Interest in spouse	2	Registered capital of RMB39,315,800	100%	—	—

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

Interests in associated corporations (Continued)

Notes:

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

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

Saved as disclosed above, none of the Directors and chief executives 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 2011 (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2011, other than the Directors' and the Company's chief executives' 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, the following substantial shareholders had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or otherwise notified to the Company and the Stock Exchange:

Interests in the Company

			Long position		Short position	
Name of the substantial shareholder	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Wangji	Beneficial owner		325,100,000	40.64%	—	—
Shen Wang	Beneficial owner	1	156,291,000	19.54%	30,000,000	3.75%
Yang Yingying	Interest of spouse	1	156,291,000	19.54%	30,000,000	3.75%
Hong Jun	Nominee for another person	2	69,000,000	8.63%	—	—


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

Interests in the Company (Continued)

Name of the substantial shareholder	Capacity	Notes	Long position: Number of ordinary Shares	Long position: Approximate percentage of total number of Shares	Short position: Number of ordinary Shares	Short position: Approximate percentage of total number of Shares
CCB International Asset Management Limited ("CCBI-AM")	Interest in controlled corporations	2	69,000,000	8.63%	—	—
CCB International Assets Management (Cayman) Limited ("CCBI-AMC")	Interest in controlled corporations	2	69,000,000	8.63%	—	—
CCB International (Holdings) Limited ("CCBI-H")	Interest in controlled corporation	2	30,000,000	3.75%	3,709,000	0.46%
	Beneficial owner	2	69,000,000	8.63%	—	—
CCB Financial Holdings Limited ("CCB-FH")	Interest in controlled corporations	2	99,000,000	12.38%	3,709,000	0.46%
CCB International Group Holdings Limited ("CCBI-Gp")	Interest in controlled corporations	2	99,000,000	12.38%	3,709,000	0.46%
China Construction Bank Corporation ("CCB")	Beneficial owner	2	99,000,000	12.38%	3,709,000	0.46%
Apex Ally	Interest in controlled corporations	3	45,900,000	5.74%	—	—
ICBC International Investment Management Limited ("ICBCI-IM")	Interest in controlled corporations	3	45,900,000	5.74%	—	—
ICBC International Holdings Limited ("ICBCI-H")	Interest in controlled corporations	3	45,900,000	5.74%	—	—
Industrial and Commercial Bank of China Limited ("ICBC")	Interest in controlled corporations	3	45,900,000	5.74%	—	—
Central Huijin Investment Ltd. ("Central Huijin")	Interest in controlled corporations	4	144,900,000	18.11%	3,709,000	0.46%

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

Interests in the Company (Continued)

Notes:

1. Mr Dong is the sole beneficial owner of Shen Wang which is the direct owner of 156,291,000 Shares. A stock borrowing agreement dated 13 June 2011 was entered into between Shen Wang (as lender) and CCBI-Cap (as borrower). Pursuant to the above agreement, Shen Wang has short position of 30,000,000 Shares. Ms Yang Yingying is the spouse of Mr Dong. By virtue of the SFO, Ms Yang is deemed to be interested in all interests of Mr Dong in the Company including long position and short position.

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

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

   Pursuant to a stock borrowing agreement dated 13 June 2011 and entered into between Shen Wang (as lender) and CCBI-Cap (as borrower), Shen Wang agreed to lend up to 30,000,000 Shares to CCBI-Cap as an underwriter to perform as a stabilizing manager to facilitate the distribution of Shares during the Global Offering (as defined in note 20(iv) to the financial statements) of the Company (for details please refer to section headed "Structure of the Global Offering—Over-allotment and Stabilization" in the prospectus of the Company dated 8 June 2011). CCBI-Cap is 100% owned by CCB International Capital (Cayman) Limited which is in turn 100% owned by CCBI-H. By virtue of the SFO, CCBI-H, CCB-FH, CCBI-Gp and CCB are deemed to be interested in the interests of the Company held by CCBI-Cap under the above agreement.

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

4. CCB and ICBC are 57.1% owned and 35.42% owned, respectively, by Central Huijin. By virtue of the SFO, Central Huijin is deemed to be interested in the interests of the Company held by CCB and ICBC as stated in note (2) and note (3) above.

Saved as disclosed above, no person (other than Directors and the Company's chief executives 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 its Associated Corporations" above) had interest or short position in the Shares or underlying shares of the Company 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.

Directors' Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange as its own code of conducts regarding Directors' securities dealings. Specific enquiries had been made to all Directors, who confirmed that they have with the required standard set out in the Model Code since the date of listing of the Shares on 20 June 2011 up to and including 30 June 2011.


Compliance with the Code on Corporate Governance

The Company is committed to high standards of corporate governance. The Directors of the Company believe that the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) in Appendix 14 of the Listing Rules for the period from its listing date to 30 June 2011 and there was no material deviation from that Code.

Audit Committee and Review of Financial Statements

The audit committee of the Company has been set up in accordance with the Listing Rules. Members of the audit committee comprise Ms Leung Mei Han (chairman of the audit committee), Mr Zhang Jun and Ms Peng Cuihong, independent non-executive Directors. The committee has reviewed with the management the accounting principles and practices adopted by the Group, financial reporting matters including a review of the audited consolidated results for the six months ended 30 June 2011 prior to recommending them to the Board for approval.

The consolidated interim financial statements for the six months ended 30 June 2011 have been audited by the Company’s auditor, Deloitte Touche Tohmatsu (“Deloitte”).

The Company notes that Deloitte has noted in its Independent Auditor’s Report in respect of the Company dated 25 August 2011 that the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2010 and the relevant explanatory information have not been audited.

Remuneration Committee and Nomination Committee

The remuneration committee and nomination committee of the Company have been set up in accordance with Appendix 14 to the Listing Rules. The committee comprises Mr Dong Liyong, a non-executive Director, Ms Leung Mei Han and Ms Peng Cuihong both of whom are independent non-executive Directors.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011. Accordingly, no closure of Register of Members of the Company is proposed.

Purchase, Sale or Redemption of the Company’s Listed Securities

The Shares first became listed on the Main Board of the Stock Exchange on 20 June 2011. During the six months ended 30 June 2011, save as disclosed in the Company’s prospectus dated 8 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities.

Deloitte.
德勤

To The Directors of Xiangyu Dredging Holdings Limited
翔宇疏浚控股有限公司
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xiangyu Dredging Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 17 to 62, which comprise the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2011 to 30 June 2011, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2011, and of the Group's profit and cash flows for the period from 1 January 2011 to 30 June 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matter

The consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2010 and the relevant explanatory information have not been audited.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 August 2011

Consolidated Statement of Comprehensive Income

For the period from 1 January 2011 to 30 June 2011

	Notes	Six months ended 30 June 2011 RMB'000	2010 RMB'000 (Unaudited)
Revenue	6	**461,577**	159,853
Operating cost		**(277,747)**	(69,886)
Gross profit		**183,830**	89,967
Other income	7	**26,937**	11
Marketing and promotion expenses		**(2,439)**	(982)
Administrative expenses		**(7,263)**	(2,546)
Listing expenses		**(11,093)**	—
Finance costs	8	**(2,355)**	(1,146)
Profit before tax		**187,617**	85,304
Income tax expense	9	**(52,170)**	(21,419)
Profit for the period and total comprehensive income for the period		**135,447**	63,885
Earnings per share	12		
— basic (RMB)		**0.22**	0.58


Consolidated Statement of Financial Position

At 30 June 2011

	Notes	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	366,385	376,300
Deposit paid for acquisition of property, plant and equipment		27,116	273
		393,501	376,573
CURRENT ASSETS			
Trade and other receivables	15	599,372	280,440
Pledged bank deposits	16	60,000	—
Bank balances and cash	16	522,436	12,520
		1,181,808	292,960
CURRENT LIABILITIES			
Trade and other payables	17	251,709	127,678
Amounts due to directors	18	592	26,464
Tax payable		90,844	39,185
Secured bank borrowings	19	169,900	40,000
		513,045	233,327
NET CURRENT ASSETS		668,763	59,633
NET ASSETS		1,062,264	436,206
CAPITAL AND RESERVES			
Share capital/paid-in capital	20	67,200	39,451
Reserves		995,064	396,755
TOTAL EQUITY		1,062,264	436,206

Consolidated Statement of Changes in Equity

For the period from 1 January 2011 to 30 June 2011

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	PRC statutory reserve RMB'000 (note i)	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010 (audited) (note ii)	39,406	—	13,549	—	114,673	167,628
Profit for the period and total comprehensive income for the period (unaudited)	—	—	—	—	63,885	63,885
Shares exchange between Power Wealth BVI and Power Wealth HK (unaudited) (note iii)	(22)	—	—	22	—	—
At 30 June 2010 (unaudited)	39,384	—	13,549	22	178,558	231,513
Profit for the period and total comprehensive income for the period (unaudited)	—	—	—	—	31,145	31,145
Issue of shares by Power Wealth BVI (unaudited) (note iv)	67	173,481	—	—	—	173,548
At 31 December 2010 (audited) (note v)	39,451	173,481	13,549	22	209,703	436,206
Profit for the period and total comprehensive income for the period	—	—	—	—	135,447	135,447
Shares exchange between the Company and Power Wealth BVI (note vi)	8,265	(173,481)	—	165,216	—	—
Transfer of paid-in capital of PRC Operational Entity (note vii)	(39,316)	—	—	39,316	—	—
Issue of new shares through Global Offering (note viii)	16,800	519,120	—	—	—	535,920
Transaction costs attributable to issue of new shares	—	(45,309)	—	—	—	(45,309)
Capitalisation Issue (note ix)	42,000	(42,000)	—	—	—	—
At 30 June 2011 (audited)	67,200	431,811	13,549	204,554	345,150	1,062,264


Consolidated Statement of Changes in Equity (Continued)

For the period from 1 January 2011 to 30 June 2011

Notes:

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

(ii) The balance of share capital at 1 January 2010 represents the paid-in capital of the PRC Operational Entity (as defined in note 29) of approximately RMB39,316,000 and the share capital of Power Wealth HK (as defined in note 29) of RMB90,000. Both companies were controlled by Mr. Liu (as defined in note 2).

(iii) On 30 June 2010, Mr. Liu transferred all the issued share capital of Power Wealth HK to Power Wealth BVI (as defined in note 29) in exchange for 9,999 new shares of US$1.00 each issued by Power Wealth BVI. The difference between the share capital exchanged was credited to other reserve.

(iv) On 18 September 2010, Power Wealth BVI further issued 10,000 new shares of US$1.00 each to Wangji Limited ("Wangji"), a company controlled by Mr. Liu, at a consideration of RMB173,548,000 to raise additional capital for the Group.

(v) The balance of share capital at 31 December 2010 represents the paid-in capital of the PRC Operational Entity and the share capital of Power Wealth BVI.

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

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

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

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

Consolidated Statement of Cash Flows

For the period from 1 January 2011 to 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
OPERATING ACTIVITIES		
Profit before income tax	**187,617**	85,304
Adjustments for:		
Depreciation of property, plant and equipment	**10,073**	1,687
Finance costs	**2,355**	1,146
Bank interest income	**(8)**	(11)
Operating cash flows before movements in working capital	**200,037**	88,126
Decrease on rental deposits	**—**	3,000
Increase in trades and other receivables	**(343,775)**	(13,811)
Increase (decrease) in trade and other payables	**104,457**	(23,754)
Cash (used in) generated from operations	**(39,281)**	53,561
PRC income tax paid	**(322)**	(675)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(39,603)**	52,886
INVESTING ACTIVITIES		
Interest received	**8**	11
Purchase of property, plant and equipment	**(149)**	(284)
Deposit paid for acquisition of property, plant and equipment	**(27,116)**	—
Advance to a director	**—**	(128,289)
Repayment from a director	**—**	57,706
Addition of pledged bank deposits	**(60,000)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(87,257)**	(70,856)
FINANCING ACTIVITIES		
Issue of ordinary shares	**535,920**	—
New bank borrowings raised	**149,900**	40,000
Repayment of secured bank borrowings	**(20,000)**	(27,500)
Advance from directors	**6,711**	11,541
Repayment to a director	**(31,900)**	—
Advance from a related company	**—**	(8)
Interest paid	**(2,355)**	(1,146)
NET CASH FROM FINANCING ACTIVITIES	**638,276**	22,887


Consolidated Statement of Cash Flows (Continued)

For the period from 1 January 2011 to 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**511,416**	4,917
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**12,520**	1,764
Effect of changes in foreign exchange rate	**(1,500)**	—
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**522,436**	6,681

1. General

The Company was incorporated as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business in Hong Kong is located at Office 19, 36th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong. The shares of the Company ("Shares") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2011.

The Company acts as an investment holding company and the particulars of its subsidiaries are set out in note 29.

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

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements

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

As part of the Reorganisation, the PRC Operational Entity (as defined in note 29), Xiangyu PRC (as defined in note 29) and their respective equity participants, being Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements") on 19 April 2011 with the following key provisions:

(i) Option Agreement

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

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(i) *Option Agreement (Continued)*

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

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

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

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

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

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

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

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

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

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

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(ii) Proxy Agreement

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

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

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

(iii) Composite Services Agreement

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

In consideration of the provision of the aforementioned services by Xiangyu PRC, the PRC Operational Entity agrees to pay to Xiangyu PRC fees on an annual basis in arrears. Fees payable to Xiangyu PRC by the PRC Operational Entity will be equivalent to the total audited revenue less all the related costs, expenses, taxes and statutory reserve of the PRC Operational Entity.

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


2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(iii) Composite Services Agreement (Continued)

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

(iv) Equity Pledge Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an equity pledge agreement ("Equity Pledge Agreement"), pursuant to which Mr. Liu and Ms. Zhou granted a continuing first priority security interests over their respective equity interests in the PRC Operational Entity to Xiangyu PRC for guaranteeing the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement.

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

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

(v) Vessel Pledge Agreements

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

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

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(v) *Vessel Pledge Agreements* *(Continued)*

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

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

Power Wealth BVI (as defined in note 29) was incorporated on 17 May 2010 and one ordinary share having a par value of US$1.00 was allotted and issued to Mr. Liu on 18 June 2010. Xiangyu PRC was established on 11 June 2010 as a wholly owned subsidiary of Power Wealth HK (as defined in note 29). On 30 June 2010, Power Wealth BVI acquired from Mr. Liu 100,000 shares of HK$1 each in Power Wealth HK, representing its entire issued share capital, in consideration of and in exchange for which Power Wealth BVI allotted and issued, credited as fully paid, a total of 9,999 new shares of US$1.00 each in its capital to Mr. Liu. Accordingly, Power Wealth HK became the wholly owned subsidiary of Power Wealth BVI. Prior to the Reorganisation and on 18 August 2010, Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 ordinary shares of US$1.00 each) to Wangji Limited ("Wangji"), a company wholly owned by himself. On 18 September 2010, Power Wealth BVI, further issued and allotted 10,000 new shares of US$1.00 each at a consideration of RMB173,548,000 to Wangji to raise additional capital for the Group. Through a share exchange as part of the Reorganisation which was completed on 19 April 2011 by interspersing the Company between Power Wealth BVI and Wangji, the Company became the holding company of the companies now comprising the Group on the same date.

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

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the periods presented or since their respective date of incorporation or establishment. The consolidated statement of financial position of the Group as at 31 December 2010 and at 30 June 2011 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new and revised standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[4]
HKFRS 9	Financial Instruments[1]
HKFRS 10	Consolidated Financial Statements[1,5]
HKFRS 11	Joint Arrangements[1,5]
HKFRS 12	Disclosure of Interests in Other Entities[1,5]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (Revised 2011)	Employee Benefits[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[1,5]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1,5]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Earlier application is permitted provided that all of the five new or revised standards are applied early at the same time.

The Directors anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year when they first become effective and the potential impact is described below.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgment. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. The Directors are assessing the effect of application of this standard.

The Directors anticipate that the application of other new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange and by the Hong Kong Companies Ordinance. Historical cost is generally based on the fair value of the consideration given in exchange for goods. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.


4. Significant Accounting Policies (Continued)

Merger accounting for business combination involving entities under common control (Continued)

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. Significant Accounting Policies (Continued)

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.


4. Significant Accounting Policies (Continued)

Retirement benefit costs

Payments to defined contribution schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Payments made to state-managed retirement benefit schemes, are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled, or the asset is realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivable.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and observable changes in national or local economic conditions that correlate with default on receivables.


4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to directors and secured bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise collateralised borrowing for proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated allowance for trade and other receivables

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

Estimated useful life of property, plant and equipment

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

6. Revenue and Segment Information

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

The Group has two operating and reportable segments, namely (i) Dredging Business and (ii) Dredging Related Construction Business. The segments are managed separately as each business offers different services and requires different marketing strategies.

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

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

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

	Dredging Business RMB'000	Dredging Related Construction Business RMB'000	Total RMB'000
Six months ended 30 June 2011			
Segment revenue	461,577	–	461,577
Segment results	183,830	–	183,830
Other income			26,937
Unallocated corporate expenses			(9,702)
Listing expenses			(11,093)
Finance costs			(2,355)
Profit before tax			187,617

6. Revenue and Segment Information (Continued)

	Dredging Business RMB'000	Dredging Related Construction Business RMB'000	Total RMB'000
Six months ended 30 June 2010 (Unaudited)			
Segment revenue	157,707	2,146	159,853
Segment results	89,662	305	89,967
Bank interest income			11
Unallocated corporate expenses			(3,528)
Finance costs			(1,146)
Profit before tax			85,304

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment results represent the profit earned by each segment without allocation of central administrative costs, marketing and promotion expenses, other income and finance costs. This is the measure reported to the Company's executive Directors for the purposes of resource allocation and performance assessment.

Depreciation of property, plant and equipment has been included in the segment results of the Dredging Business due to the related property, plant and equipment are used for this segment.

Segment assets and liabilities

As the assets and liabilities are regularly reviewed by the executive Directors of the Company in total for the Group as a whole, the measure of total assets and liabilities by operating segment is therefore not presented.

Geographical information

As all the Group's revenue is derived from its operation in the PRC and substantially all its assets (other than bank balances of approximately RMB418 million as at 30 June 2011 (31 December 2010: RMB7 million) which were located in Hong Kong) and liabilities are located in the PRC, no geographical information is presented.


6. Revenue and Segment Information (Continued)

Information about major customers

An analysis of revenue from customers contributing to over 10% of the Group's total sales for the period is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Customer A		
— Dredging Business	**213,572**	38,937
— Dredging Related Construction Business	**Nil**	2,146
Customer B		
— Dredging Business	**Nil**	84,980
Customer C		
— Dredging Business	**Nil**	20,399
Customer D		
— Dredging Business	**245,594**	Nil

7. Other Income

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Bank interest income	**8**	11
Government financial incentive (note)	**26,929**	—
	26,937	11

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

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

8. Finance Costs

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Interest expense on:		
Bank borrowings wholly repayable within five years	**1,283**	1,146
Discounted bills	**1,072**	—
	2,355	1,146

9. Income Tax Expense

(i) *Hong Kong Profits Tax*

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

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

(ii) *PRC Enterprise Income Tax*

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

The tax charge for the period can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Profit before tax	**187,617**	85,304
Tax at the PRC Enterprise Income Tax rate of 25%	**46,904**	21,326
Tax effect of expenses not deductible for tax purpose	**5,266**	93
Tax charge for the period	**52,170**	21,419


10. Profit for the Period

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Profit for the period has been arrived at after charging:		
Auditor's remuneration	**1,512**	5
Depreciation of property, plant and equipment	**10,073**	1,687
Net foreign exchange loss	**656**	—
Directors' emoluments (note 11)	**728**	928
Other staff costs	**8,635**	6,312
Retirement benefit scheme contributions, excluding those of Directors		
— current period	**1,043**	1,154
— over-provision in prior periods	**(990)**	—
Total staff costs	**9,416**	8,394
Sub-contracting charges included in operating cost	**—**	4,725

11. Directors' and Employees' Emoluments

Directors

Details of the emoluments paid to the Directors during the period are as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Fee	**709**	—
Salaries and other allowances	**19**	921
Retirement benefit scheme contributions	**—**	7
	728	928
Comprising:		
Executive Directors:		
Mr. Liu	**349**	928
Ms. Zhou	**150**	—
	499	928
Non-executive Director:		
Mr. Dong Li Yong	**200**	—
Independent non-executive Directors:		
Ms. Leung Mei Han	**16**	—
Mr. Zhang Jun	**—**	—
Ms. Peng Cuihong	**13**	—
	29	—
	728	928


11. Directors' and Employees' Emoluments (Continued)

Employees

Of the Group's five highest paid individuals during the period, one of (six months ended 30 June 2010: one) them was a Director whose emoluments are presented above. The emoluments of the remaining highest paid individuals, were as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Salaries and other allowances	**1,879**	1,172
Retirement benefit scheme contributions	**33**	28
	1,912	1,200

Their emoluments were within the following bands:

	Six months ended 30 June	
	2011	2010
	No. of employees	No. of employees
HK$nil to HK$1,000,000 (equivalent to approximately RMB nil to RMB840,000)	**3**	4
HK$1,000,001 to HK$1,500,000 (equivalent to approximately RMB840,001 to RMB1,260,000)	**1**	—

During both periods, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. Other than Mr. Zhang Jun who waived his emolument for the six months ended 30 June 2011 of RMB13,000 in total, none of the Directors waived any emoluments during both periods.

12. Earnings Per Share

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**135,447**	63,885
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share ('000)	**612,154**	110,975

The weighted average number of shares for the purpose of basic earnings per share is calculated based on the number of shares issued, and also has taken into account the weighted average effect of the capital injection by Mr. Liu to the companies comprising the Group prior to the Reorganisation.

The number of shares for the period ended 30 June 2010 has also been adjusted for the effect of the Capitalisation Issue as set out in note 20(v).

No diluted earnings per share is presented as there were no potential dilutive shares in issue.

13. Dividends

No dividend has been paid or declared by the Company or by its subsidiaries since the date of their incorporation or during the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

14. Property, Plant and Equipment

	Leasehold land and building RMB'000	Leasehold improvement RMB'000	Dredgers RMB'000	Plant and machinery RMB'000	Furniture, fittings and office equipment RMB'000	Motor Vehicles RMB'000	Total RMB'000
COST							
At 1 January 2010	4,221	—	24,316	14,728	86	3,075	46,426
Additions	—	—	346,000	53	54	1,404	347,511
At 31 December 2010	4,221	—	370,316	14,781	140	4,479	393,937
Additions	—	253	—	16	153	—	422
Exchange difference	(281)	—	—	—	(1)	—	(282)
At 30 June 2011	3,940	253	370,316	14,797	292	4,479	394,077
DEPRECIATION							
At 1 January 2010	184	—	2,499	2,443	26	867	6,019
Provided for the year	85	—	9,789	1,020	22	702	11,618
At 31 December 2010	269	—	12,288	3,463	48	1,569	17,637
Provided for the period	39	68	8,979	513	26	448	10,073
Exchange difference	(18)	—	—	—	—	—	(18)
At 30 June 2011	290	68	21,267	3,976	74	2,017	27,692
CARRYING VALUE							
At 30 June 2011	3,650	185	349,049	10,821	218	2,462	366,385
At 31 December 2010	3,952	—	358,028	11,318	92	2,910	376,300

As the leasehold property cannot be allocated reliably between the leasehold land and building elements, the entire leasehold property is accounted for as property, plant and equipment.

The Group's leasehold land and building is held under a medium term lease in Hong Kong.

14. Property, Plant and Equipment (Continued)

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, on the following bases:

Leasehold land and building	2%
Dredgers	5%–6.7%
Plant and machinery	6.7%
Furniture, fittings and office equipment	10%–20%
Motor vehicles	10%–20%
Leasehold improvement	over the shorter of the term of the lease, or five years

15. Trade and Other Receivables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade receivables	**532,387**	216,084
Less: Allowance on trade receivables	**—**	—
	532,387	216,084
Bills receivable	**25,000**	42,000
Deposits, prepayments and other receivables:		
Amount due from local government authority (note 7)	**26,929**	—
Rental deposits for chartered dredgers with short term leases	**2,060**	2,073
Rental receivables	**300**	300
Retention receivables	**6,224**	6,224
Deposits and prepayments	**4,247**	12,431
Others	**2,225**	1,328
	41,985	22,356
	599,372	280,440

15. Trade and Other Receivables (Continued)

The Group prepares an aged analysis for its trade receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Monthly statements are issued by the Group and agreed with 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 70% to 80% of the value of work completed in the previous month) within thirty days after the issuance of the progress certificate each month. According to these contracts, the remaining balance (20% to 30% of the value of work completed) is to be paid by the customers within thirty to sixty days after the project is completed and the customers receive payment from the project owners.

The aged analysis of the Group's trade receivables (net of allowance on trade receivables) at the end of each reporting period is as follows:

Aged analysis of the Group's trade receivables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
0–30 days	**102,499**	65,036
31–60 days	**80,898**	32,045
61–90 days	**82,874**	21,844
91–180 days	**210,941**	62,552
Over 180 days	**55,175**	34,607
	532,387	216,084

The bills receivable is aged within 0–30 days. Included in the balance as at 30 June 2011 is a bill receivable of RMB10.0 million (31 December 2010: nil) which was discounted to a bank with recourse. The Group recognised the cash received on the discounted bill as a secured bank borrowing (note 19).

15. Trade and Other Receivables (Continued)

Aged analysis of the Group's trade receivables (Continued)

Retention receivables represent trade receivables retained by customers during the maintenance period which is normally less than one year from the completion of provision of services. The Group prepares an aged analysis for its retention receivables based on the date of the last monthly progress certificate of the project. The aged analysis of the Group's retention receivables at the end of each reporting period is as follows:

Aged analysis of the Group's retention receivables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
61–90 days	–	22
91–180 days	–	1,323
Over 180 days	6,224	4,879
	6,224	6,224

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.

Included in the Group's trade receivable balance are debtors which were past due as at the reporting date but for which the Group has not provided for impairment loss as follows:

Aging of trade receivables which were past due but not impaired

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
0–30 days	62,774	13,722
31–60 days	77,239	4,065
61–90 days	63,198	81
91–180 days	53,445	84
Over 180 days	7,513	10,280
	264,169	28,232

The Group does not hold any collateral over the above balances, but management considers that no impairment loss needs to be recognised in view of the financial background of these customers and their historical and subsequent repayments. No allowance for doubtful debts was recognised by the Group during the reporting periods.

16. Bank Balances and Cash/Pledged Bank Deposits

Bank balances and cash of the Group comprise cash and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest rates as follows:

	At 30 June 2011	At 31 December 2010
Range of interest rates (per annum)	0.01%–0.36%	0.01%–0.36%


16. Bank Balances and Cash/Pledged Bank Deposits (Continued)

Bank balances that are denominated in a currency other than the financial currency of the relevant group companies are set out below:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
United States Dollar ("US$")	**84,636**	—
Hong Kong Dollar ("HK$")	**333,844**	—

Pledged bank deposits represent deposits pledged to a bank to secure short-term bank borrowings to an extent of RMB120,000,000 and are therefore classified as current assets.

17. Trade and Other Payables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade payables	**182,012**	103,106
Other payable and accruals	**58,892**	17,990
Receipts in advance	**4,288**	3,991
Others	**6,517**	2,591
	69,697	24,572
	251,709	127,678

The aged analysis of the Group's trade payables presented based on the invoice date as at the end of each reporting period is as follows:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
0–30 days	**38,083**	22,730
31–60 days	**27,144**	13,042
61–90 days	**16,286**	11,081
91–180 days	**67,193**	16,507
Over 180 days	**33,306**	39,746
	182,012	103,106

18. Amounts Due to Directors

As at 30 June 2011, the amounts represent emolument payables to the Directors and are unsecured, interest-free and non-trade in nature.

As at 31 December 2010, the amount was due to Mr. Liu and was unsecured, interest-free and non-trade in nature.

19. Secured Bank Borrowings

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Secured bank borrowings repayable within one year	**159,900**	40,000
Discounted bills with recourse (note 15) repayable within one year	**10,000**	—
	169,900	40,000

The Group's secured bank borrowings at 30 June 2011 carried variable interest rate with reference to the benchmark borrowing rate of The People's Bank of China ("Benchmark rate") or Benchmark rate plus certain basis point. The Group's secured bank borrowings at 31 December 2010 carried fixed interest rate ranged from 4.87% to 5.31% per annum. The effective interest rates of the secured bank borrowings (which are also equal to contracted interest rates) were as follows:

	At 30 June 2011	At 31 December 2010
Effective interest rate (per annum)	**6.31%–16.31%**	4.87%–5.31%
	(Benchmark rate or Benchmark rate plus 10%)	(Fixed interest rate)

At 30 June 2011, the Group's secured bank borrowings were secured by the corporate guarantee given by Xiangyu PRC (see note 25(ii)) and pledged bank deposits (see note 16).

At 31 December 2010, the Group's secured bank borrowings were secured by the corporate guarantee given by Xiangyu PRC (see note 25(ii)) and the personal guarantee provided by Mr. Liu (see note 25(ii)).

20. Share Capital/Paid-in Capital

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

Notes:

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

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

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

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

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

The balance of the share capital at 31 December 2010 as shown in the consolidated statement of financial position represents the paid in capital of the PRC Operational Entity and the share capital of Power Wealth BVI.

21. Major Non-Cash Transactions

During the period ended 30 June 2011, deposits of RMB273,000 were transferred to property, plant and equipment.

During the period ended 30 June 2010, two dredgers with an aggregate amount of approximately RMB346,000,000 were acquired through the amount due to a Director. In addition, deposits of RMB28,494,000 paid for the acquisition of these dredgers and outstanding as at 31 December 2009 were also transferred to property, plant and equipment during the six months ended 30 June 2010.

22. Operating Leases

The Group as lessee

(i) Minimum lease payments paid

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Minimum lease payments paid under operating leases during the period:		
— chartered dredgers	**163,847**	14,317
— office premises	**443**	122
— transportation vessel	**1,140**	—
	165,430	14,439

(ii) Minimum lease payment commitments

At the end of the respective reporting period, the Group was committed to make the following future minimum charter payments under non-cancellable operating leases which fall due as follows:

(a) Chartered dredgers

	At 30 June 2011	At 31 December 2010
	RMB'000	RMB'000
Within one year	**160,713**	43,064

The leases for chartered dredgers are generally negotiated for a term of one year with fixed rental.


22. Operating Leases (Continued)

The Group as lessee (Continued)

(ii) Minimum lease payment commitments (Continued)

(b) Office premises

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Within one year	838	858
In the second to fifth year inclusive	447	832
Over five years	219	245
	1,504	1,935

The leases for office premises are generally negotiated for a term from one to ten years with fixed rental.

(c) Transportation vessel

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Within one year	580	—

The leases for transportation vessel are generally negotiated for a term of one year with fixed rental.

23. Capital Commitments

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Capital commitment contracted but not provided for relating to acquisition of:		
— a dredger	173,820	—
— other plant and equipment	2,957	117
	176,777	117

24. Retirement Benefit Plans

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to make the specified contributions.

25. Related Party Disclosures

(i) Related party transactions

During the reporting period, the Group had the following transactions with related parties:

		Six months ended 30 June	
Related party	**Nature of transaction**	**2011 RMB'000**	2010 RMB'000 (Unaudited)
Mr. Liu	Acquisition of dredgers	–	346,000
Yancheng City San Ben Concrete Company Limited (鹽城三本混凝土有限公司) ("San Ben Concrete")	Rental expense	26	26
Yancheng Xingyu Construction Material Manufacturing Company Limited (鹽城興宇建材建造有限公司) ("Xingyu Construction")	Rental expense	20	—

On 30 December 2009, the PRC Operational Entity entered into a rental agreement with San Ben Concrete, a company controlled by Mr. Liu, for the lease of office premise with a lease term of 20 years. Pursuant to the relevant tenancy agreement, the term of tenancy commenced from 30 December 2009 and will expire on 29 December 2019 at an annual rental of RMB51,000.

In addition, during the six months ended 30 June 2010 and up to 15 July 2010, the PRC Operational Entity occupied certain office space owned by Xingyu Construction, a company controlled by Mr. Liu without charge. Pursuant to a tenancy agreement entered into between the PRC Operational Entity and Xingyu Construction on 16 July 2010, a term of tenancy was established for the period from 16 July 2010 to 30 June 2013 at an annual rental of RMB40,000.

25. Related Party Disclosures (Continued)

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

During the six months ended 30 June 2010, the Group's secured bank borrowings were supported by:

(a) pledge of properties owned by (a) Mr. Liu; (b) Ms. Zhou; (c) Mr. Li Jing (李錚), (a previous director of the PRC Operational Entity during the six months ended 30 June 2010) and (d) Yancheng Feng Yu Machinery Company Limited (鹽城市豐宇機械有限公司) and Xingyu Construction, both are companies controlled by Mr. Liu.

(b) personal guarantee provided by Mr. Liu.

On 17 September 2010, the pledge of properties was released and the security to the Group's bank borrowings was replaced by the corporate guarantee given by Xiangyu PRC (as defined in note 29).

The guarantees provided by Mr. Liu were released prior to 30 June 2011.

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

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

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

Guarantee (i) and collaterals (ii) to (v) as stated in (a) and (b) above were released during the six months ended 30 June 2011.

(iv) Related party balances

Details of the balances due to Directors are set out in note 18.

(v) Compensation of key management personnel

The emoluments of Directors who are also identified as members of key management of the Group during the reporting period are set out in note 11.

26. Capital Risk Management

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of amounts due to directors and secured bank borrowings as disclosed in notes 18 and 19 respectively and equity attributable to owners of the Company, comprising paid up capital/share capital and reserves.

The Directors of the Company review the capital structure regularly. As part of this review, the Directors consider the cost and the risks associated with each class of the capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

27. Financial Instruments

(a) Categories of financial instruments

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,175,501**	278,456
Financial liabilities		
Amortised cost	**352,504**	169,570

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to Directors and secured bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include liquidity risk. The policy on how to mitigate this risk is set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.


27. Financial Instruments (Continued)

(b) *Financial risk management objectives and policies (Continued)*

Market risk

(i) *Currency risk*

The Group has foreign currency transactions, which expose the Group to foreign currency risk. The Company will consider the use of foreign currency forward contracts to mitigate the risk when the need arises.

At the end of the reporting period, the carrying amounts of foreign currency denominated monetary assets that are considered significant by the management are as follows:

	Assets	
	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
US$	**84,636**	—
HK$	**333,844**	—

The Group is mainly exposed to the fluctuation of HK$ and US$ against RMB.

The following tables detail the Group's sensitivity to a 5% (31 December 2010: 5%) increase and decrease in the functional currency of the relevant group entities against the relevant foreign currencies to the extent that the exposures have not been hedged. 5% (31 December 2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period/year for a 5% change in foreign currency rates. On this basis, there will be an increase in post-tax profit where the functional currency of the relevant group entities weaken against the foreign currencies by 5%, and vice versa.

	Increase in post-tax profit	
	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
US$	**3,174**	—
HK$	**12,519**	—

27. Financial Instruments (Continued)

(b) *Financial risk management objectives and policies* (Continued)

Market risk (Continued)

(ii) *Interest rate risk*

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank borrowings as at 30 June 2011 and bank balances as at 31 December 2010 and 30 June 2011. In addition, the Group was also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings as at 31 December 2010.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings and bank balances at the end of the reporting period.

The analysis is prepared assuming the amount of the outstanding amount at the end of the reporting period was outstanding for the whole period/year. 50 basis points and 5 basis points increase or decrease are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for bank borrowings and bank balances respectively.

If interest rates had been 50 basis points and 5 basis points higher/lower for bank borrowings and bank balances respectively, and all other variables were held constant, the Group's profits for the period would increase/(decrease) as follow:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Profit for the period	**(441)**	5

27. Financial Instruments (Continued)

(b) *Financial risk management objectives and policies (Continued)*

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure by the counterparties to discharge an obligation was arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk on receivables is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group also has a significant concentration of credit risk in relation to its trade customers as follows:

	At 30 June 2011 %	At 31 December 2010 %
Amount due from the largest customer as a percentage to total trade receivables	**54**	34
Amount due from the five largest customers as a percentage to total trade receivables	**99**	97

Because of its business nature, the Group normally only transacts with PRC government entities or large state-owed companies with solid financial background and hence the number of customers is typically small. Due to its small number, management regularly visits these customers to ensure that there is no dispute on the amounts due. In this regard, the Directors consider that the Group's concentration of credit risk is mitigated.

27. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand/ less than 3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 30 June 2011					
Non-derivative financial liabilities					
Trade payables	—	182,012	—	182,012	182,012
Amounts due to directors	—	529	—	529	529
Secured bank borrowings					
— variable rate	9.03	—	171,193	171,193	169,900
		182,604	171,193	353,418	352,504


27. Financial Instruments (Continued)

(b) *Financial risk management objectives and policies* (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate %	On demand/ less than 3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2010					
Non-derivative financial liabilities					
Trade payables	—	103,106	—	103,106	103,106
Amount due to a director	—	26,464	—	26,464	26,464
Secured bank borrowings					
— fixed rate	5.09	—	40,592	40,592	40,000
		129,570	40,592	170,162	169,570

The amounts included above for variable interest rate bank borrowings are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) *Fair value*

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

28. Share-Based Payment Transaction

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

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

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

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

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

During the six months ended 30 June 2011, no share option has been granted, expired, lapsed or exercised.


29. Particular of Subsidiaries

Particulars of the Company's subsidiaries at 30 June 2011 and 31 December 2010 are as follows:

Name of subsidiary	Country and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company	Principal activities	Form of company
Directly owned					
Power Wealth Group (BVI) Limited ("Power Wealth BVI")	British Virgin Islands 17 May 2010	US$20,000	100%	Investment holding	Limited liability
Indirectly owned					
Power Wealth Engineering Limited ("Power Wealth HK") 力富工程有限公司	Hong Kong 3 July 2002	HK$100,000	100%	Investment holding and provision of dredging consultation services	Limited liability
Jiangsu Xiangyu Port Construction Project Administration Company Limited* ("Xiangyu PRC") 江蘇翔宇港建工程管理有限公司	PRC 11 June 2010	US$28,000,000	100%	Provision of dredging services in PRC	Foreign wholly-owned enterprise
Jiangsu Xingyu Port Construction Company Limited* ("PRC Operational Entity") 江蘇興宇港建有限公司	PRC 13 July 2007	RMB39,315,800	100%	Provision of dredging services in PRC	A limited company

* English translated name is for identification only

None of the subsidiaries had any debt securities outstanding at the end of the period, or at any time during the period.