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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 871

Annual Report 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Liu Kaijin *(Chief Executive Officer and Joint Chairman)*
Ms. Zhou Shuhua

Non-Executive Director:

Mr. Liu Longhua *(Joint Chairman)*

Independent Non-Executive Directors:

Ms. Peng Cuihong *(resigned on 17 January 2014)*
Mr. Huan Xuedong
Mr. Chan Ming Sun Jonathan
Mr. Xu Hengju *(joined on 17 January 2014)*

AUDIT COMMITTEE

Mr. Chan Ming Sun Jonathan *(Chairman)*
Ms. Peng Cuihong *(resigned on 17 January 2014)*
Mr. Huan Xuedong
Mr. Xu Hengju *(joined on 17 January 2014)*

REMUNERATION COMMITTEE

Ms. Peng Cuihong *(Chairman) (resigned on 17 January 2014)*
Mr. Liu Longhua
Mr. Chan Ming Sun Jonathan
Mr. Xu Hengju *(Chairman) (joined on 17 January 2014)*

NOMINATION COMMITTEE

Mr. Liu Longhua *(Chairman)*
Ms. Peng Cuihong *(resigned on 17 January 2014)*
Mr. Chan Ming Sun Jonathan
Mr. Xu Hengju *(joined on 17 January 2014)*

AUTHORISED REPRESENTATIVES

Mr. Liu Kaijin
Mr. Leung Kim Hung

COMPANY SECRETARY

Mr. Leung Kim Hung

LEGAL ADVISOR

Chiu & Partners (as to Hong Kong Law)

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Yancheng City Branch office of Agricultural Bank of China Limited
Bank of Jiangsu, Yan Cheng
China Construction Bank Asia Corporation
China Everbright Bank (Nanjing Branch)

REGISTERED ADDRESS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS

The People's Republic of China:
No. 1 Xingyu Road, Baocai Industrial Zone,
Yandu District, Yancheng City,
Jiangsu Province, the PRC

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

PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

WEBSITE

www.cdep.com.hk

"Board"	the board of Directors
"CG Code"	the code provisions as contained in "Corporate Governance Code and Corporate Governance Report" set out in Appendix 14 to the Listing Rules (as amended from time to time), which are adopted (with modification) by the Board as its corporate governance code
"Company"/"China Dredging ENV"	China Dredging Environment Protection Holdings Limited
"Contractual Arrangements"	a series of contracts, brief details of which are set out in note 38 to the financial statements in this annual report, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Jiangsu Fengyu"	江蘇豐宇置業有限公司(Jiangsu Fengyu Property Company Limited*), a wholly-owned subsidiary of the Company
"Jiangsu Jiaolong"	江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.*), a non-wholly owned subsidiary of the Company
"Jiangsu Lugang"	江蘇省路港建設工程有限公司(Jiangsu Province Lugang Construction Project Co. Limited*) , a wholly-owned subsidiary of the Company
"Jiangsu Xingyu"/ "PRC Operational Entity"	江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*), a wholly-owned subsidiary of the Company
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (as amended from time to time)
"Mr. Liu"	Mr. Liu Kaijin, joint chairman, chief executive officer and an executive Director (who is the spouse of Ms. Zhou)
"Ms. Zhou"	Ms. Zhou Shuhua, an executive Director (who is the spouse of Mr. Liu)
"PRC"	the People's Republic of China

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

* *For identification purpose only*

The following is a summary of the published results and assets and liabilities of the Group for the past five financial years.

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)	(audited)
Revenue	**973,615**	966,027	1,137,303	374,883	346,549
Profit before tax	**259,817**	294,886	415,730	135,669	121,971
Income tax expense	**(78,535)**	(80,494)	(112,566)	(40,639)	(33,130)
Consolidated net profit of the Group for the year and total comprehensive income for the year	**181,282**	214,392	303,164	95,030	88,841
Consolidated net profit of the Group for the year and total comprehensive income for the year attributable to:					
Owners of the company	**164,757**	199,495	303,164	95,030	88,841
Non-controlling interests	**16,525**	14,897	—	—	—
	181,282	214,392	303,164	95,030	88,841

ASSETS AND LIABILITIES

	31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)	(audited)
Non-current assets	**2,026,550**	1,577,510	830,877	376,573	71,901
Current assets	**1,384,822**	1,019,689	734,028	292,960	314,134
Current liabilities	**(1,278,906)**	(955,466)	(334,924)	(233,327)	(218,407)
Non-current liabilities	**(402,315)**	(97,858)	—	—	—
Net assets	**1,730,151**	1,543,875	1,229,981	436,206	167,628

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at the end of the reporting period is as follows:

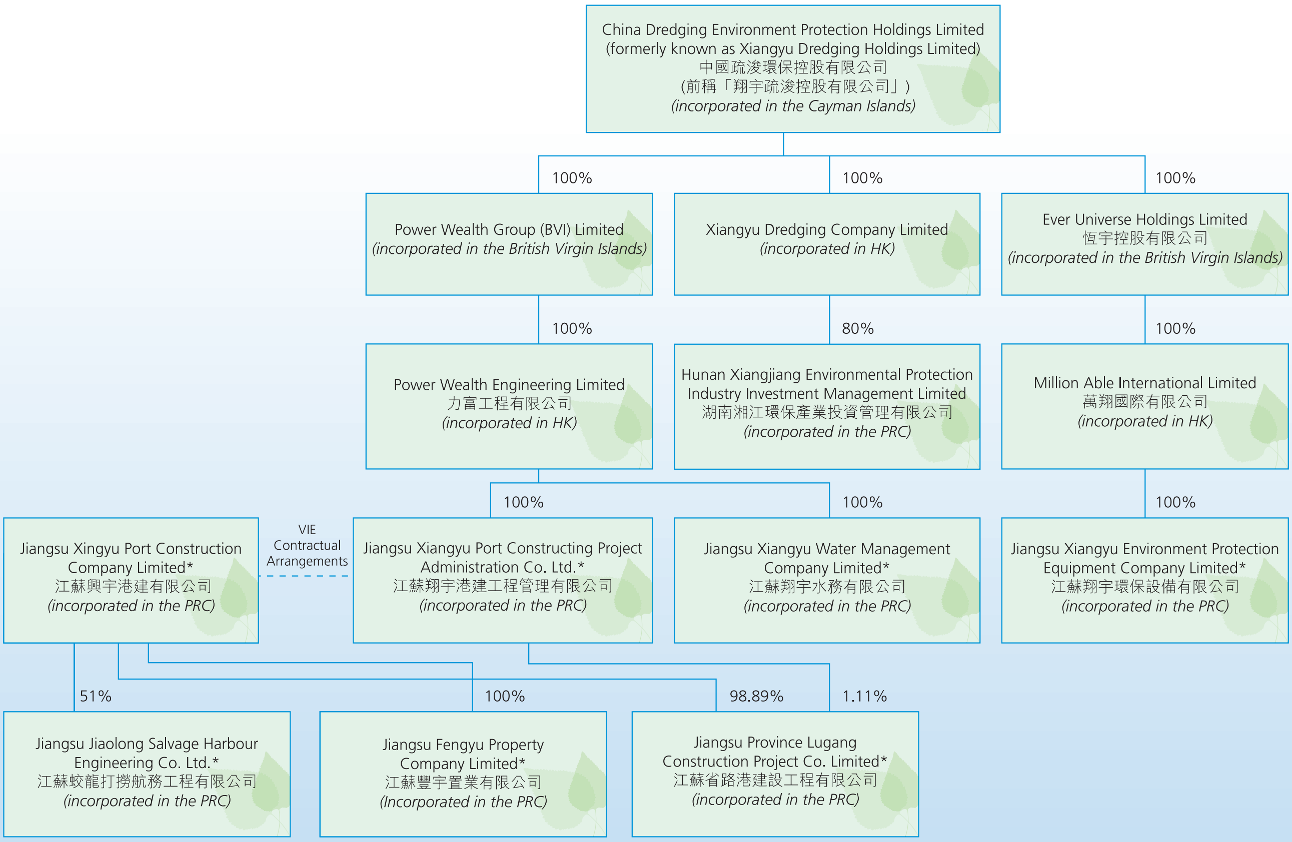
	2013 RMB'000	2012 RMB'000
ASSETS		
Unlisted investments in subsidiaries	167,445	167,445
Amounts due from subsidiaries	576,915	415,270
Other receivables	13	14
Bank and cash	8,186	245
	752,559	582,974
LIABILITIES		
Other payables	9,922	4,960
Amounts due to directors	1,792	2,365
Convertible bonds	172,056	—
Derivative financial liabilities	37,768	—
	221,538	7,325
TOTAL ASSETS LESS TOTAL LIABILITIES	531,021	575,649
CAPITAL AND RESERVES		
Share capital	67,200	67,200
Reserves (note)	463,821	508,449
	531,021	575,649

note:

Reserves of the Company

	Share premium RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	431,811	—	165,238	(64,728)	532,321
Loss and total comprehensive expense for the year	—	—	—	(20,068)	(20,068)
Dividend declared	(12,960)	—	—	—	(12,960)
Recognition of equity-settled share-based payments	—	9,156	—	—	9,156
At 31 December 2012	418,851	9,156	165,238	(84,796)	508,449
Loss and total comprehensive expense for the year	—	—	—	(49,622)	(49,622)
Recognition of equity-settled share-based payments	—	4,994	—	—	4,994
At 31 December 2013	418,851	14,150	165,238	(134,418)	463,821

The following sets out the corporate structure of the Group as at 31 December 2013:



Notes:

1. Mr. Liu and Ms. Zhou are the registered holders of the registered capital in Jiangsu Xingyu, and Ms. Zhou holds all her equity interest in Jiangsu Xingyu as trustee for Mr. Liu.

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

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

4. The acquisition of Lugang was completed in December 2013.

* *For identification purpose only*

CEO Statement

« 2013 is a year that should be marked as a milestone year in the Group's history. With the Group's dredging qualification being upgraded to Class A main contractor, dredging capacity for both CRD and EPD works being increased and our sludge de-watering equipment with proven technology and skills in EPD works being put into mass production, the Group is ready to advance to a new level of engineering contractor with competitive niche particularly specialized in EPD services in 2014 and beyond. »

To Shareholders, customers and employees,

In 2013, there are a number of good things happened to the Group:

1. Firstly, the Group has successfully acquired Jiangsu Province Lugang Construction Project Co., Limited* (江蘇省路港建設工程有限公司) ("Jiangsu Lugang"), a company which holds a first class main contractor license entitling it to carry out port and waterway construction works, reclamation dredging construction works, lake and river water restoration and treatment works, and all levels of water channel maintenance work. The acquisition of Jiangsu Lugang has enhanced the Group's capability and capacity to render dredging services by (a) expanding the Group's business scope to include the carrying out of capital, maintenance, reclamation and environmental protection dredging works in the PRC as a first class main contractor under the said license, and (b) increasing the Group's capacity to carry out reclamation and capital dredging ("CRD") works as a dredger for CRD works was obtained through the acquisition. After the acquisition, the aggregate annual dredging capacity for CRD works of our Group's fleet of dredgers increased from approximately 61,000,000 cubic meters to approximately 80,000,000 cubic meters.

2. Secondly, our effort made for the development of sludge de-watering equipment for environmental protection dredging ("EPD") works in the past few years has finally paid off. The satisfactory result of the EPD work carried out in Nanhu, Wuhan (武漢南湖) has proven that our skills and technology in EPD works are mature and effective. The approval of registration of certain intellectual property rights of the sludge de-watering equipment by the relevant authority in the PRC further endorsed our leading technology. With the support of the local government at Yancheng City, the transfer of the land and the construction of our new factory thereon for the production of sludge de-watering equipment at Yancheng City were efficient as the production of such equipment commenced after Chinese Lunar New Year in 2014. The full production capacity of our new factory could reach 20 units of sludge de-watering equipment per month. Twenty units of sludge de-watering equipment equipped with one EPD dredger can handle around 1,000,000 cubic meters of sludge per annum. The sludge de-watering equipment scheduled to be produced will increase the Group's annual dredging capacity for EPD works from the initial approximately 1,000,000 cubic meters to around 10,000,000 cubic meters by the end of 2015.

3. Thirdly, with the support of our Shareholders, the Company's name was changed to "China Dredging Environment Protection Holdings Limited". The change of the Company's name can convey a clear message to the capital and business market about the Group's commitment to the development of environmental protection dredging business.

4. Fourthly, the Company issued a vanilla type convertible bond in the sum of HK$243,000,000 (approximately RMB191,970,000) with 3% p.a. coupon rate to a renowned fund mainly for the purpose of developing EPD business . Such corporate finance activity represents a recognition of the Group's implementation capability and reflects the huge potential of EPD business in the PRC.

Finally, 2013 is a year that should be marked as a milestone year in the Group's history. With the Group's dredging qualification being upgraded to Class A main contractor, dredging capacity for both CRD and EPD works being increased and our sludge de-watering equipment with proven technology and skills in EPD works being put into mass production, the Group is ready to advance to a new level of engineering contractor with competitive niche particularly specialized in EPD services in 2014 and beyond.

We still holds the view without doubt that the prospect of both CRD and EPD business in the PRC is promising. The stable demand for CRD business in the PRC is supported by several factors. Among others, the State Council of the PRC published in 2012 the Official Reply to Marine Function Division (2010–2020) for 11 coastal provinces and regions, whereby the total reclamation indicator areas in Liaoning, Hebei, Tianjin, Shandong and the others amount to over 240,000 hectares, as a result of which will facilitate the continuous growth in the market of reclamation, coastal and seawall construction. Further, the redline of China's national agricultural acreage is about 1.8 billion mu and the national basic farmland area is about 1.58 billion mu, both of which are not allowed to be reduced. Therefore, the demand for additional land resources for residential and commercial use will have to be fulfilled by reclamation. Further, harbour construction will enter into a stable development stage in the Twelfth Five-year Period. Despite the slackened construction of core hub container harbour, harbour development in the second and third-tier cities remains rapid, and the demand for construction of harbour for different functions such as energy base, equipment base and heavy chemical industry has increased as well.

Amid increasingly prominent environmental issues and China's policy support to environmental protection, it is expected that there will be dramatic increase in the demand for EPD services. Currently, many rivers and natural lakes such as Taihu* (太湖), Chaohu* (巢湖) and Dian Lake* (滇池) etc in the PRC suffer from severe water pollution problems. In addition to the policies laid down in the Twelfth Five-year plan regarding environmental protection, the Third Plenary Session of the 18th Central Committee of the Communist Party of China* (第十八屆中央委員會第三次全體會議) reiterated the Central Government's determination to take measures to solve environmental pollution problems, including water environment pollution treatment and ecological restoration.

The supply of EPD works is still in shortage. Despite the fact that future supply is expected to increase, the demand for EPD works may continue to exceed the supply of them mainly due to the lack of experience, technology and equipment in this sector as EPD in China is a new field. With the proven satisfactory result in the EPD works carried out by the Group's self-produced sludge de-watering equipment together with an effective working process, the Group is confident that it has the ability and competence to be the market leader in the EPD sector in the PRC.

Your support to and confidence in the Group is very much appreciated. We ensure you that we will continue to do our best to add value to every stakeholder of the Group.

Liu Kaijin
Joint Chairman, Chief Executive Offer and Executive Director

27 March 2014

* *for identification purpose only*

Management Discussion and Analysis

FINANCIAL REVIEW

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

Revenue

During the year, the Group recorded an increase of about RMB7.6 million in total revenue from RMB966.0 million in the financial year of 2012 to about RMB973.6 million. As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the year ended 31 December 2013 were about RMB437.4 million and about RMB325.2 million which represented a decrease of about 18% and an increase of about 45.3% respectively from the corresponding segments' revenue in the year ended 31 December 2012. The decrease in revenue of CRD Business segment was mainly due to (i) the Group's cautious selection for projects with high profit margin and project owners with strong financial position and (ii) the Group's decision to reduce subcontracting work as one of the Group's strategies. As the capacity of the Group's fleet of dredgers for carrying out CRD work has been increased since the Group went public in 2011, the Group has adopted the strategy of utilizing the Group's fleet of dredgers to work on projects as much as possible rather than engaging subcontractors and/or chartering outside dredgers so as to keep a better control of operational risk and to maintain a better profit margin. Thus the total revenue generated from CRD Business in 2013 decreased as aforesaid. On the other hand, revenue from EPD and Water Management Business segment increased in 2013 because the major part of the EPD work from the Phase 1 of EPD project at Nanhu, Wuhan City ("Wuhan EPD Project"), the aggregate consideration of which amounts to approximately RMB100 million, was completed in the reported period.

FINANCIAL REVIEW (Continued)

Revenue (Continued)

During the year, following the drop of CRD works, the revenue of the Group's Dredging Related Construction Business decreased to about RMB42.3 million. As a result, the Group recorded a drop of about 42.9% as compared with about RMB74.2 million in this segment for the year ended 31 December 2012.

During the year, the Group's revenue generated from Other Marine Business recorded a growth of about 25.6% to about RMB168.7 million from about RMB134.3 million for the year 2012. The main reason is that all revenue generated by Jiangsu Jiaolong, one of our subsidiaries, during the reporting period was recognized in the Group's consolidated financial statements whereas only the portion of revenue generated after the completion of the acquisition of 51% equity interest of Jiangsu Jiaolong by the Group which had taken place in 2012 was recognized in the Group's consolidated financial statements for the year ended 31 December 2012.

Operating Cost and Gross Profit

The Group's operating cost decreased from about RMB636.6 million for the year ended 31 December 2012 to about RMB624.2 million for the year ended 31 December 2013, representing a decrease of about 2%. The Group recorded a gross profit of about RMB349.4 million for the year ended 31 December 2013, representing an increase of about 6% as compared with the year ended 31 December 2012 of about RMB329.4 million.

The gross profit margin of CRD Business increased from about 36.3% for the year ended 31 December 2012 to about 40.6% for the year ended 31 December 2013 as a result of the selection of projects with high profit margin and the decrease in engaging sub-contractors and/or charter of dredgers.

The gross profit margin of EPD and Water Management Business increased from about 31.5% for the year ended 31 December 2012 to about 34.8% for the year ended 31 December 2013 as the revenue generated from Wuhan EPD project in 2013 was higher than the revenue generated in 2012 and the profit margin of EPD works has been higher than that of the Water Management work.

The gross profit margin of the Group's Other Marine Business decreased by less than 3% to about 29.2% for the year ended 31 December 2013 which is considered by the directors of the Company to be acceptable while the Group's Dredging Related Construction Business, which principally includes ancillary construction work of capital and reclamation dredging services, is a segment that traditionally operated at relatively low but acceptable gross profit margin.

FINANCIAL REVIEW (Continued)

Other Income

The Group obtained incentive payment from local PRC government to support the growth of the Group. Other income decreased by about RMB6.2 million to about RMB31.1 million for the year ended 31 December 2013 which was mainly due to the decrease in such incentive income and interest income in respect of non-current account receivables.

Net Loss Due to Fair Value Changes of Derivative Financial Liabilities

There was a non-cash loss of about RMB19.5 million due to the change of fair value of an unsecured convertible bonds issued in November 2013 because the Company's share price as at 31 December 2013 was higher than that on the date of issue of the said convertible bonds. The issue of the convertible bonds did provide strong capital support for the development of the Group's business, in particular the environmental protection dredging business, enhance the Group's market presence and competitiveness and strengthen the Group's capital base effectively after the convertible bonds' full conversion. Further, as the subscriber of the convertible bonds was a reputable private investment fund ("Fund"), the issuance of the Bonds to the subscriber presented a valuable opportunity to invite such private investment fund to become a strategic investor of the Company. Please refer to the Company's announcement dated 29 October 2013. No issuance of any bonds was made in 2012.

Marketing and Promotion Expenses

Marketing and promotion expenses decreased by about RMB2 million to about RMB13.2 million for the year ended 31 December 2013 due to the marketing activities in the year conducted in a more cost effective way.

Administrative Expenses

Administrative expenses for the year ended 31 December 2013 amounted to about RMB47.5 million, representing an increase of about 22.8% from RMB38.7 million for the year ended 31 December 2012 due to the costs incurred during the reporting period for the Group's corporate finance activities such as issuance of convertible bonds and warrants, acquisition transaction and expenses which were related to share options granted under Share Option Scheme adopted by the Company on 24 May 2011.

Income Tax Expense

Due to the decrease in profit before tax, income tax expense for the year ended 31 December 2013 amounted to about RMB78.5 million, representing a decrease of about RMB2.0 million compared with the year 2012.

FINANCIAL REVIEW (Continued)

Profit for the Year

As a combination effect of the above, the profit for the year decreased by about 15.4% from about RMB214.4 million for the year ended 31 December 2012 to about RMB181.3 million for the year ended 31 December 2013. Comparing the operating profit of 2012 with the operating profit for the reporting period with the non-cash net loss of about RMB19.5 million due to fair value changes of derivative financial liabilities as above mentioned not taken into account, the operating profit dropped by about 6.3%.

Earnings Per Share

Earnings per Share decreased by about 16% from RMB0.25 per Share in 2012 to RMB0.21 per Share in 2013.

Financial Management Policies

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

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

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

Financial Position

As at 31 December 2013, total equity of the Group amounted to about RMB1,730.2 million (2012: RMB1,543.9 million). The increase was mainly due to net profit for the year of 2012.

The Group's net current assets as at 31 December 2013 amounted to about RMB105.9 million (2012: RMB64.2 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 31 December 2013 was 1.08 (2012: 1.07).

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources

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

Included in net current assets were cash and various bank deposits totalling about RMB365.7 million as at 31 December 2013, representing an increase of about RMB259.3 million as compared with about RMB106.4 million as at 31 December 2012.

As mentioned in the paragraph headed "Net Loss Due to Fair Value Changes of Derivative Financial Liabilities", the Company issues convertible bonds to a Fund in November 2013. The Company's allocation of the net proceeds of about HK$243 million (approximately RMB191,970,000) was as follows:

(a) capital expenditures: about HK$163 million (approximately RMB128,770,000);

(b) repayment of bank borrowings: about HK$40 million (approximately RMB31,600,000); and

(c) working capital: the remaining balance of about HK$40 million (approximately RMB31,600,000).

The capital expenditures were planned to be used in connection with environmental protection dredging segment. Such expenditures would mainly comprise of the purchase of dredgers, as well as the production of mechanical sludge de-watering system. As at 31 March 2014, about HK$40 million of the above net proceeds was spent for the repayment of bank borrowings, about HK$40 million (approximately RMB31,600,000) was spent for working capital (which includes, among others, the purchase of fuel and spare parts of the dredgers and payment of wages) and about HK$70 million (approximately RMB55,300,000) was spent for the acquisition of land, building of the factory and acquisition of equipments for production of mechanical sludge de-watering equipment. The rest of the sum of about HK$93 million (approximately RMB73,470,000) is still deposited with the bank.

The Group's accounts receivables as at 31 December 2013 amounted to about RMB980.9 million (2012: RMB969.5 million).

Further, the Group has a sum of about RMB170 million other receivables to be settled by instalments before 31 December 2015 as described below. On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer to the Group its (i) 95% equity interest in Yongheng (as defined below), and (ii) its shareholder's loan therein, in lieu of settlement for certain trade debts due to the Group (the "1st Agreement"). The amount of such trade debts to be settled in this manner is RMB288,293,000 (comprising current portion of RMB251,798,000 and non-current portion of RMB36,495,000) as determined with reference to the adjusted net assets value of Yongheng based on a valuation report issued by 江蘇仁和資產評估有限公司, a registered valuation firm in the PRC which is independent to the Group.

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co., Ltd*) ("Yongheng") is a limited liability company established in the PRC, the sole assets of which are two parcels of land in the PRC. The scope of business of Yongheng includes construction and development of properties.

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

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

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

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

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

Interest is payable by Hongji Construction to the Group at a rate of 6% per annum on the amount of unpaid balance starting from 1 January 2014.

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

Though the Group did not have any collateral over the receivables, the management considered that there is no recoverability problem as to its receivables as the remaining amounts were mainly due from reputable enterprises. The slightly increase in amount of overdue receivables as at 31 December 2013 did not significantly impair the Group's liquidity position as it has a positive operating cash flows before movements in working capital changes for the year.

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

Total liabilities of the Group as at 31 December 2013 were about RMB1,681.2 million (2012: RMB1,053.3 million). The increase mainly represented increase in bank loans in the sum of about RMB177.8 million, liabilities under finance lease and convertible bonds of about RMB80.3 million and RMB209.8 million respectively and account payable in the sum of about RMB170.5 million being an outstanding portion of purchase price of the dredger owned by 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co., Ltd.*), which the Group acquired in December 2013. The bank loans will mature within one year and all are at fixed interest rates while the term of finance lease and convertible bonds with conversion price being HK$2.70 is 4 years and 3 years respectively. The proceeds of the loans and borrowings were and would be used for capital expenses (the building of the factory for the production of EPD equipment and the production of sludge de-watering equipment etc) and operating expenses as part of the operating revenue were used for the purpose of acquisition of 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co., Ltd.*).

The Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to a level of 17.9% (2012: 16.7%) or 26.4% if calculated by the aggregate sum of bank borrowings, obligations under finance lease and convertible bonds, which the Board believes is at a healthy level.

Charge Over Assets of the Group

As at 31 December 2013, the Group's bank borrowings are secured by pledged bank deposits of about RMB53.5 million, charges over certain dredgers and land owned by the Group; properties owned by certain non-controlling shareholders of the Company's subsidiary; and personal guarantees by Mr. Liu and Ms. Zhou. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the Contractual Arrangements, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu have been transferred to Xiangyu PRC.

Material Acquisitions and Disposals

Apart from those discussed above in this announcement, the Group completed the acquisition of 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co., Ltd.*), a company holding a first class main contractor license for the business of carrying out of port and waterway construction work, reclamation dredging construction work, lake and river water restoration and treatment work, and all levels of water channel maintenance work, in 2013, details of which were set out in the Company's announcements dated 20 December 2013.

As mentioned above under the paragraph headed "Liquidity and Financial Resources", the Group transferred to Hongji Construction 85% equity interest (and the same proportion of shareholder's loan) of Yongheng held by the Group for a total consideration of approximately RMB253.0 million. No material gain or material loss, subject to any taxation effect, arising from the transaction, was accrued as the total consideration of disposing 85% equity in the subsidiary is equivalent to the unaudited net book value of the equity interest and the shareholder's loan. Please refer to the Company's announcements dated 31 December 2012, 2 January 2013 and 22 March 2013 for further details.

FINANCIAL REVIEW (Continued)

Capital Commitments and Contingent Liabilities

As at 31 December 2013, the Group has capital commitment of RMB88.2 million and RMB24 million in relation to acquisition of property, plant and equipment and investment in Hunan Xiangjiang Environmental Asset Investment Management Co Ltd* (湖南湘江環保產業投資管理有限公司) ("Hunan Investment"), a joint venture established with Zhuzhou Cyclic Economy Investment and Development Group Co., Ltd.* (株洲循環經濟投資發展集團有限公司) (formerly known as Zhuzhou Cyclic Economy Investment and Development Co., Ltd.* (株洲循環經濟投資發展有限責任公司), a State-owned enterprise established by the Committee of Zhuzhou Qingshuitang Cyclic Economy Industrial Zone* (株洲清水塘循環經濟工業區委員會) ("Zhuzhou Investment") in the PRC, respectively (2012: RMB39 million).

As at 31 December 2013, the Group did not have any material contingent liability (2012: nil).

Employees and Remuneration Policy

As at 31 December 2013, the Group had a workforce of 668 (2012: 606). The increase in number of employees was mainly due to the increase of employees for the Environmental Protection Dredging Business. The total staff cost for the year ended 31 December 2013 was about RMB54.0 million (2012: RMB55.7 million). The decrease of staff cost is because certain share option expenses in relation to share options granted to employees was recorded in the year of 2012 while no such expenses was recorded for the reporting period. The Group's remuneration policy is basically determined by the Directors based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under share option scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules).

During the year 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.

Event After End of Reporting Period

As mentioned in Note 40 to the Consolidated Financial Statements, the Group's equity will be increased with issuance of 35 million new shares for a total sum of HK$94.5 million (equivalent to approximately RMB74,655,000) if all the subscription rights attaching to the warrants issued by the Company dated 17 January 2014 are exercised. This will further improve the Group's liquidity and financial position.

On 18 March 2014, Zhuzhou Investment and Hunan Investment entered into an environmental dredging cooperation agreement (the "Agreement") for environmental management and the relevant auxiliary engineering services at Qingshui Lake area, the PRC (the "Environmental Protection Dredging Project"). The total value of the Environmental Protection Dredging Project is estimated to be approximately RMB3 billion. Under the Agreement, Hunan Investment shall appoint the Group to exercise actual implementation of the Environmental Protection Dredging Project. Please refer to the Company's announcements dated 18 March 2014 for further details. This pipeline will certainly be a landmark of the Group's development in EPD business.

BUSINESS REVIEW

The operating revenue of RMB973,615,000 and the gross profit of RMB349,428,000 in 2013 were slightly better than that in the previous year. While our gross profit was up 6% as compared with that of the year before, the profit for the year ended 31 December 2013 decreased by about 15.4% (or about 6.3% if the non-cash loss in the sum of RMB19,511,000 due to the fair value changes of derivative financial liabilities (as the Company's share price as at 31 December 2013 was higher than as at the date of issue of the convertible bonds) was not taken into account) from the profit for the year ended 31 December 2012.

With the acquisition of additional dredgers and thus increasing the aggregate dredging capacity of our Group's fleet of dredgers for the CRD works over the past years, the Group has grown to have the capability of taking up more CRD works and using sub-contractors and/or chartering dredgers less. Hence, the Group's profit margin can be maintained at a better level. Although the capital and reclamation dredging market has begun to show signs of bottoming out as mentioned in the Interim Result of first half of 2013, the recovery was still not too fast. In addition to the reduction of the engagement of subcontractors in CRD works for better control of operational risks and maintaining a better profit margin, the Group has taken its cautious approach in selection of projects with high profit margin and project owners with strong financial position which in turn caused the revenue generated from CRD Business segment in 2013 to fall about 18% but with an increase of about 4.3% in gross profit margin from that recorded for the year ended 31 December 2012. On the other hand, through Wuhan EPD project's highly satisfactory result, the performance of EPD and Water Management segment in 2013 was better than that of 2012 with 45.3% growth achieved.

BUSINESS REVIEW (Continued)

In December 2013, the Group successfully acquired a company, namely 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co., Limited*), which holds a first class main contractor license for the business of carrying out of port and waterway construction work, reclamation dredging construction work, lake and river water restoration and treatment work, and all levels of water channel maintenance work ("Lugang"). In addition to the improvement in our Group's qualification in both CRD and EPD and Water Management Business, the said acquisition also brought in one dredger for CRD works with the dredging capacity of about 19,000,000 cubic meters per annum. Hence, the aggregate annual dredging capacity of our Group's fleet of dredger for CRD works was increased to approximately 80,000,000 cubic meters. This strategic move enhances the Group's capability and capacity to render different types of dredging services.

Regarding the capacity in relation to EPD and Water Management Business, our Group has taken necessary action to meet the demand. The building of new factory for the mass production of sludge de-watering equipment for the EPD works was almost completed by the year end of 2013. Our dredging capacity in relation to EPD works was only about 1,000,000 cubic meters per annum in 2013. The sludge de-watering equipment scheduled to be produced through our new factory will increase the Group's annual dredging capacity for EPD works to not less than 10,000,000 cubic meters by the end of 2015.

OUTLOOK

We have seen that each segment of the dredging industry has picked up different growth momentum. The intensified contradiction between population explosion in first-tier cities and the continuous urban development against the shortage of land resources will continue to support future demand in reclamation. With the economy in US and Europe on the recovery track, China's import and export will gradually improve and the harbor construction engineering work will speed up too. Given the worsening situation of polluted rivers and lakes in China, growing demand for EDP services is expected. Following the completion of our new factory, our Group's EPD capacity is able to be increased through the production of sludge de-watering equipment and the purchase of supporting EPD dredgers. As mentioned above, there is a project in Zhuzhou, Hunan of a total value in the sum of about RMB3 billion in the pipeline. Also, the good result achieved in Phase 1 of Wuhan EDP Project by the Group will very likely lead it to get the Phase 2 and Phase 3 of the said project that can generate an aggregate value of about RMB700 million. In the event that the EPD project in Zhuzhou and/or other projects to be taken up by the Group will commence in Q2 or Q3 of 2014, our Group's revenue contributed by EPD and Water Management Business Segment is expected to grow and the growth will make the revenue generated from EPD and water Management Business Segment more or less in the same proportion as what the rest reportable segments will achieve in two to three years' time.

Although the potential of the Group's business in particular the EPD business is huge, the Group is still subject to challenges especially the high level of receivables for the time being. The directors take the view that the receivables will gradually be reduced as (i) the Central Government and Provincial Government have already indicated that they will contribute part of the funding requirements for EPD projects, the growth engine of the Group, thus the Group will be able to secure the settlement of the services payment for EPD works on time, (ii) an aggregate sum of more than RMB100 million receivables under Build & Transfer projects (the payment for the work will be made annually) will become due and payable to the Group in 2014 and (iii) a sum of not less than RMB100 million being instalment payment for the transfer of equity interest of Yongheng will be paid to the Group in 2014 by Hongji Construction that paid the first two instalments in a total sum of RMB80 million in accordance with the schedule as mentioned in the paragraph headed "Liquidity and Financial Resources".

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Kaijin (劉開進先生), aged 53, the founder of the Group, was appointed as a Director on 31 May 2010, and was re-designated as an executive Director and chief executive officer on 24 May 2011. Mr. Liu entered into a service agreement with the Company for an initial term of three years with effect from 1 June 2011. Mr. Liu is further appointed as the joint chairman of the Board on 5 March 2012. Mr. Liu is the spouse of Ms. Zhou, an executive Director.

Mr. Liu completed his secondary education in 1977. In 2003, Mr. Liu obtained a certificate as a senior construction engineer from the Human Resources Bureau of Yancheng City* (鹽城市人事局). As his experience and knowledge in the PRC dredging business grew, Mr. Liu established Jiangsu Xingyu in 2007. Mr. Liu worked in the dredging industry of the PRC for approximately 20 years.

Mr. Liu is a member of the 6th session of the committee of the Chinese People's Political Consultative Conference of Yancheng City, Jiangsu Province* (中國人民政治協商會議江蘇省鹽城市第六屆委員會委員) and a member of the 14th session of the People's Congress of Yandu District, Yancheng City* (鹽城市鹽都區第十四屆人民代表大會代表).

Mr. Liu is the chairman of Jiangsu Xingyu and the chairman and general manager of Xiangyu PRC, Xiangyu Water Management, Jiangsu Environment Protection and Jiangsu Lugang; and has been responsible for overseeing their daily operations and planning their business strategies. Jiangsu Xingyu, Xiangyu PRC, Xiangyu Water Management, Jiangsu Environment Protection and Jiangsu Lugang are subsidiaries of the Company. He is currently a director of each of the subsidiaries of the Company. He has discloseable interests in the Company under the provisions of the SFO.

Ms. Zhou Shuhua (周淑華女士), aged 51, was appointed a Director on 18 August 2010 and re-designated as an executive Director on 24 May 2011. Ms. Zhou entered into a service agreement with the Company for an initial term of three years with effect from 1 June 2011. Ms. Zhou is mainly responsible for general administrative work of our Group. She is the spouse of Mr. Liu, joint chairman of the Board, an executive Director and chief executive officer of the Group.

Ms. Zhou graduated from The Correspondence Institute of the Party School of the Central Committee of the Communist Party of China* (中共中央黨校函授學院), the PRC in December 1999 and obtained a graduation certificate for undergraduate courses in administrative management. She also obtained a graduation certificate for undergraduate courses in broadcasting in May 2001 from Nanjing Normal University* (南京師範大學), the PRC.

Ms. Zhou is a director of Jiangsu Xiangyu, a wholly-owned subsidiary of the Company. She has discloseable interests in the Company under the provisions of the SFO.

BOARD OF DIRECTORS (Continued)

Non-executive Director

Mr. Liu Longhua (劉龍華先生), aged 61, was appointed as the Company's non-executive Director and joint chairman on 25 April 2012. He is also the chairman of the Company's nomination committee and member of the Company's remuneration committee. Mr. Liu entered into an appointment letter with the Company for an initial term of three years commencing from 25 April 2012.

Mr. Liu graduated from Tsinghua University and he was accredited with the qualification of senior engineer. Mr. Liu is currently the chairman of Beijing Urban Construction Investment Development Co., Ltd. ("Beijing Urban Construction"), a company listed on the Shanghai Stock Exchange (stock code: 600266). Mr. Liu has acted as the vice chairman and general manager of Beijing Construction Engineering Group Co., Limited* (北京建工集團 有限責任公司) and the chairman and party secretary of Beijing Urban Construction Group Co., Ltd. (a major shareholder of Beijing Urban Construction). He has extensive experience in corporate governance of sizeable state-owned enterprises.

Mr. Liu is currently a member of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議北京市委員會成員), chairman of the Constructor Committee of China Construction Industry Association* (中國建築業協會建造師分會會長), and the vice chairman of China Construction Industry Association* (中國建築業協會副會長).

Independent Non-executive Directors

Ms. Peng Cuihong (彭翠紅女士), aged 67, was appointed as an independent non-executive Director on 24 May 2011. She is the chairman of the Company's remuneration committee and a member of each of the Company's audit committee and nomination committee. Ms. Peng entered into an appointment letter with the Company for an initial term of three years commencing from 1 June 2011.

Ms. Peng graduated from Shanghai Maritime University (上海海事大學) (formerly known as Shanghai Maritime Institute (上海海運學院)) and obtained a graduation certificate for undergraduate courses in marine transport economics in 1970. Ms. Peng worked at the Water Transportation Bureau of the Ministry of Communications (交 通部) (now Ministry of Transport (交通運輸部)) from 1975 to 2006. She was the director of the transportation management division and deputy director of the water transport department of the Ministry of Communication (交 通部).

Ms. Peng has been engaged in the field of water transport and port management for approximately 30 years. She has conducted in-depth studies and research on the fundamental situation, legal system, development policies and management system of water transport and port of the developed countries such as the European countries and the United States for a considerable number of years. Ms. Peng has held, organised and participated in the drafting on laws, regulations and departmental rules of the PRC related to water transport and ports such as Regulations of the Administration of Water Transport* (《水路運輸管理條例》) and Port Law* (《港口法》), and the reforming of the national port system.

Ms. Peng currently serves as the executive vice chairman of the China Pilot Association* (中國引航協會). She ceased to be an independent director of Zhanjiang Port (Group) Co., Ltd. (湛江港(集團)股份有限公司), a joint stock company incorporated in the PRC, during the year.

Ms. Peng resigned as an independent non-executive Director and a member of the audit committee (the "Audit Committee") and the nomination committee ("Nomination Committee"), and the chairman of the remuneration committee ("Remuneration Committee") due to other work arrangement with effect from 17 January 2014.

BOARD OF DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Huan Xuedong (還學東先生), aged 63, was appointed as the Company's independent non-executive Director on 25 April 2012. He is also the member of the Company's audit committee. Mr. Huan entered into an appointment letter with the Company for an initial term of three years commencing from 25 April 2012.

Mr. Huan graduated from the Correspondence Institute of the Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院), the PRC with a graduation certificate for undergraduate courses in party administration. He also completed his postgraduate studies in Applied Sociology in Nanjing University (南京大學).

Mr. Huan has served as the Head of Bureau of Township Enterprises of Yan Cheng City* (鹽城市鄉鎮企業局) and the Head of Bureau of Water Management of Yan Cheng City* (鹽城市水利局). Mr. Huan acted as a member of the 9th session of the National Committee of the Chinese People's Political Consultative Conference of Jiangsu Province (中國人民政治協商會議江蘇省第九屆委員會) in 2003.

Currently, Mr. Huan is the chairman of the Agricultural and Water Enterprises Association of Yan Cheng City* (鹽城市農水企業協會).

Mr. Xu Hengju (徐恒菊先生), age 64, was appointed as the Company's independent non-executive Director and a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee on 17 January 2014. Mr. Xu entered into an appointment letter with the Company for an initial term of three years commencing from 17 January 2014.

Mr. Xu received a bachelor's degree in Chinese from the Yancheng Normal College (now the Yancheng Normal University after its incorporation with other colleges in 1999). Mr. Xu held the positions of Deputy Director of the Office of the Municipal Party Committee of Yancheng, Deputy Secretary-general and the Director of Office of the Municipal Party Committee of Yancheng, and the Secretary of Xiangshui County Party Committee of the Chinese Communist Party. He was the Vice-mayor of the People's Government of Yancheng Municipality from January 2001 and retired in 2011.

Mr. Chan Ming Sun Jonathan (陳銘燊先生), aged 41, was appointed as the Company's independent non-executive Director in November 2012. He is a member of Remuneration committee and Nomination committee and the chairman of Audit committee. Mr. Chan entered into an appointment letter with the Company for an initial term of three years commencing from 30 November 2012.

Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Computer Information Systems. Mr. Chan is both a member of the Hong Kong Institute of Certified Public Accountants and Certified Public Accountants, Australia. He has extensive working experience in accounting, investment and corporate finance. Mr. Chan worked in an international accounting firm for about five years and currently, he is an associate director of Go-To-Asia Investment Limited.

Mr. Chan is also an independent non-executive director of Hao Tin Resources Group Limited (stock code: 474), whose securities are listed on the main board of the Stock Exchange, and of Changhong Jiahua Holdings Limited (stock code: 8016), whose securities are listed on the growth enterprise market of the Stock Exchange as at 31 December 2012. He resigned as an independent non-executive director of Beautiful China Holdings Limited (stock code: 706) and Shenyang Public Utility Holdings Company Limited (stock code: 747) on 28 February 2014 and 21 June 2013 respectively.

SENIOR MANAGEMENT

Mr. Yang Xianbo (楊先波先生), aged 49, joined the Group as general manager of Jiangsu Xingyu in November 2012 and is responsible for overseeing the Group's dredging operations.

Mr. Yang has more than 20 years of experience in the dredging industry. Mr. Yang has been responsible for the development, implementation and management of a number of national key dredging projects and he is highly renowned in the dredging industry. Prior to joining Jiangsu Xingyu, Mr. Yang was appointed as the deputy director of Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局副局長), a sizeable state-owned dredging enterprise under the Ministry of Transport (交通運輸部). He was awarded with the Certificate of Senior Engineer in waterways engineering* (航道工程高級工程師) by the Ministry of Communication (交通部) (now Ministry of Transport (交通運輸部)) in 2006 and the Certificate of Registration of Constructor of First Class* (一級建造師) by the Ministry of Construction (建設部) in 2008.

Mr. Wang Julin (王菊林先生), aged 62, joined the Group as the chief engineer in August 2010, and is responsible for the management of the engineering department of Jiangsu Xingyu. Mr. Wang studied the profession of ports and waterways at Hohai University (河海大學) of the PRC (formerly known as East China Technical University of Water Resources (華東水利學院)) from 1974 to 1978. He was awarded the Certificate of Senior Engineer in waterways engineering by the Ministry of Communications (交通部) (now Ministry of Transport (交通運輸部)) in 1998 and was awarded the Certificate of Registration of Constructor of First Class by the Ministry of Construction (建設部) in 2008.

Mr. Wang has over 30 years of experience in the implementation, management and administration of waterways engineering. Before joining the Group, he worked for the engineering department of Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局) for about 15 years and has held the positions of officer and project manager. He has been responsible for sizeable dredging projects in the PRC. Thereafter, Mr. Wang worked in a subsidiary under Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局) as a manager for about three years. In 1996, Mr. Wang re-joined Changjiang Wuhan Waterway Engineering Company for about eight years and has held the positions of deputy chief and chief of the engineering and business department and deputy chief engineer (constructor of first class). He has been responsible for the inspection, negotiation and overseeing of various projects and entering into of relevant contracts.

Mr. Liu Baocheng (劉寶城先生), aged 49, deputy general manager of Jiangsu Xingyu joined our Group in 2010, and is mainly responsible for the research, improvement, and modification of equipment.

Mr. Liu graduated from Dalian Water Transportation College (大連海運學院) (now Dalian Maritime University (大連海事大學)) in the PRC, majoring in marine machinery management, and obtained a bachelor degree of engineering in 1985.

He has extensive experience in implementation and management of dredging and reclamation projects. Prior to joining the Group, Mr. Liu worked at Tianjin Dredging Engineering Co., Ltd.* (天津航道局工程有限公司) and its affiliates from 1985 to 2004, during the time of which he was responsible for the operation, management and supervision of several trailing suction hopper dredgers and cutter suction dredgers, and has participated in sizeable dredging projects. Mr. Liu was re-designated as the machinery supervisor and deputy head of the marine machinery department of First Dredging Company under Tianjin Dredging Engineering Co., Ltd. (天津航道局工程有限公司第一疏浚公司) in 1998 and was re-designated as the deputy head and chief engineer of marine machinery of the marine machinery department of Tianjin Dredging Engineering Co., Ltd. in 2000.

From 2005 to 2010, Mr. Liu served as the general manager of Qingdao Beiya Construction Company Limited* (青島北亞建設公司) and was mainly responsible for the entire process of design, construction, testing and management of dredgers.

SENIOR MANAGEMENT (Continued)

Mr. Lee Chih Chiang Michael (李志強先生), aged 64, joined the Group in April 2011 as the Group's senior project manager of the environmental protection dredging division.

Mr. Lee obtained a Master of Science degree in Multinational Operations Management in 1979 from the West Coast University, Los Angeles, the United States. Mr. Lee has received water treatment training organised by the National Taipei University of Technology (formerly known as National Taipei Institute of Technology) and the Foundation of Taiwan Industry Service.

Mr. Lee has been engaged in the environmental protection dredging, operation and maintenance for about 20 years. Before joining the Group, Mr. Lee has worked as a manager or a chief engineer with several water treatment and environmental protection dredging companies in Taiwan and the PRC.

Mr. Leung Kim Hung (梁劍虹先生), aged 53, joined the Group in December 2012 and is the Group's general counsel and company secretary of the Company. He was appointed as the Company's company secretary on 19 April 2013.

Mr. Leung graduated with a bachelor degree of Laws from the University of London and obtained a postgraduate certificate in Laws from the University of Hong Kong in 1988 and 1989, respectively. In 1996, he was awarded the Master degree in Applied Finance from Macquarie University. He is also a holder of a Bachelor degree of Laws from China University of Political Science and Law* (中國政法大學), a Master of Science degree in Corporate Governance and Directorship from Hong Kong Baptist University and an International Diploma in Compliance from International Compliance Association.

He was admitted as solicitor in Hong Kong and in England and Wales in 1991 and 1992. He has worked as an in-house legal counsel since 1996 when he joined a sizable listed group as the head of legal department. He later served a PRC based e-Commerce company as its senior vice president and head of legal. Before joining the Group, he was the head of legal of Asian Pacific Region of an European based renewable energy group.

Mr. Xu Wenyue (徐文躍先生), aged 42, joined the Group in October 2011 as the joint chief financial officer. He is the head of accounting department of the Group and is responsible for overseeing the daily accounting and financial matters of the Group, both in the PRC and Hong Kong.

Mr. Xu graduated from the profession of accounting of Nanjing Economic Institute* (南京經濟學院) in 1999. Mr. Xu is a senior accountant in the PRC (中國高級會計師) and both a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and the China Certified Tax Agents Association (中國註冊稅務師協會). Prior to joining the Group, Mr. Xu worked in a listed group in Hong Kong as a financial controller.

Mr. Xu was appointed as the chief financial officer on 29 November 2013.

* *For identification purpose only*

SENIOR MANAGEMENT (Continued)

Ms. Ding Jiying (丁繼穎女士), aged 38, joined the Group in December 2011 as the internal control officer. She is responsible for overseeing the internal control matters of the Group.

Ms. Ding passed the examinations of the PRC Accountant Examination (Intermediate level)* (全國中級會計師考試) and Nanjing University of Finance and Economics* (南京財經大學) in 2000 and 2007, respectively, and awarded with the Bachelor of Management. She is qualified as a PRC Certified Accountant* (全國註冊會計師) and China Real Estate Appraisers* (全國註冊房地產估價師).

Ms. Ding has about eight years' experience in accounting, financial and internal control aspects. Prior to joining the Group, she has worked in certain sizeable enterprises as financial manager and also worked in the auditing and business consulting division of a PRC accounting firm, mainly responsible for internal control review engagements.

Ms. Elsie Wong (黃愛詩女士), aged 44, joined the Group in May 2010 and was appointed as the chief financial officer and company secretary of the Company on 24 May 2011, and was reappointed as a joint chief financial officer in October 2011. She was responsible for the financial compliance and company secretarial matters of the Group.

Ms. Wong graduated from the City Polytechnic of Hong Kong (now the City University of Hong Kong) with a Bachelor degree of Arts majoring in Accountancy in 1991. Prior to joining the Group, Ms. Wong, as a practising certified public accountant, provides auditing and accounting related services including company secretarial services.

Ms. Wong is a practising certified public accountant in Hong Kong, a member of the Hong Kong Institution of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.

Ms. Wong resigned as the joint chief financial officer and company secretary on 19 April 2013.

Mr. Cheng Shing Hay (鄭承熙先生), aged 36, joined the Group in December 2012 and was appointed as joint chief financial officer on 19 April 2013. He is both a member of Hong Kong Institute of Certified Public Accountants and New Zealand Institute of Chartered Accountants. Mr. Cheng resigned as joint chief financial officer on 29 November 2013.

* *For identification purpose only*

The Board of the Company is pleased to present the corporate governance report for the year ended 31 December 2013 (the "Review Period"). This report describes how the Group has applied its corporate governance practices to its daily activities.

CORPORATE GOVERNANCE PRACTICES

The Group's corporate governance framework bases on two main beliefs:

- We are well-committed to maintaining good corporate governance practices and procedures; and
- We recognise the need to adopt practices that improve ourselves continuously for a quality management.

The Stock Exchange has published the amendments on CG Code contained in Appendix 14 to the Listing Rules which set out the principles and the code provisions, and was effective from 1 April 2012 onwards. The Group has applied these principles and adopted all code provisions, where applicable, of the CG Code as our own code of corporate governance. The Directors consider that the Company has complied with all applicable code provisions under the CG Code (the new amended version of the code on Corporate Governance Practices as set out in Appendix 14 to the Listing rules), save for the attendance of general meetings by certain independent non-executive Directors as set out in paragraph headed "General Meetings with Shareholders" in this annual report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. In response to specific enquiry made by the Company, each of the Directors confirmed that he/she had complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the Review Period.

We believe through the operation of an effective board, sound internal controls, and accountability to Shareholders, we are able to maximise the value of all Shareholders. The following summarised the corporate governance practices adopted and observed by the Group during the Review Period.

CONSTITUTIONAL DOCUMENTS

No amendment to the Memorandum and Articles of Association of the Company was made during the Review Period.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2013 and up to the date of this annual report, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors.

Composition of the Board and its changes during the year ended 31 December 2013 and up to date of this annual report are as follows:

Executive Directors:

Mr. Liu Kaijin
Ms. Zhou Shuhua

Non-executive Directors:

Mr. Liu Longhua

Independent Non-executive Directors:

Ms. Leung Mei Han	(retired on 29 May 2013)
Ms. Peng Cuihong	(resigned on 17 January 2014)
Mr. Huan Xuedong	
Mr. Chan Ming Sun Jonathan	
Mr. Xu Hengju	(appointed on 17 January 2014)

The biographical details, relationships among them and the terms of appointment of the Directors (including non-executive Director and independent non-executive Directors) as at 31 December 2013 are set out in the section headed "Directors' and Senior Management's Profile" of this annual report.

The Board believes that it has a balanced composition of executive Directors, non-executive Director and independent non-executive Directors and there is a strong independent element on the Board, which can effectively exercise independent judgement. As at 31 December 2013, the Company has three independent non-executive Directors who provide the Group with adequate check and balance. Each of them is considered to be independent and has complied with the provisions set out in Rule 3.13 of the Listing Rules. All of them are identified as such in all communications that disclose the names of the Directors. Their functions are not only limited to a restricted scope and they have contributed to the Group with diversified industry expertise, and advised on the Group's management and proceedings.

One of the three independent non-executive Directors, namely Mr. Chan Ming Sun Jonathan, has professional qualifications in accounting or related financial management expertise.

BOARD OF DIRECTORS (Continued)

Responsibilities of the Board and Delegation

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies, approval of business plans, evaluation of its performance, overseeing the management and in charge of corporate governance function. It is also responsible for promoting the success of the Group and its businesses by directing and supervising the Group's affairs.

The Board delegates day-to-day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. Board committees for specific functions are also set up to ensure efficient Board operations. The respective functions and responsibilities reserved to the Board and those delegated to Board committees have been clearly set out in their respective terms of reference.

Decisions of the Board are communicated to the management through executive Directors who have attended the Board meetings.

Chairman and Chief Executive Officer

Mr. Liu Kaijin, joint chairman and the chief executive officer of the Company, is responsible for day-to-day management of the Group's business, while Mr. Liu Longhua, another joint chairman is responsible for the management of the Board. Their roles were clearly defined and segregated to ensure balanced power and responsibilities.

Appointments, Re-election and Removal of Directors

Each of the executive Directors is engaged on a Director's service contract with the Company. The letters of appointment of non-executive Director and independent non-executive Directors also set out the specific terms and conditions relative to their respective appointment. All remuneration paid to executive Directors are covered by respective service contracts and all remuneration paid to non-executive Directors are covered by respective letters of appointment. Details of the terms of appointment of the Directors are disclosed in the section "Director's Service Contracts" of the Directors' Report in the annual report.

Pursuant to the Articles, any Director appointed by the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election. Also, pursuant to the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director (including the non-executive Director and independent non-executive Directors) shall be subject to retirement by rotation at least once every three years.

Every newly appointed Director has been provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

BOARD OF DIRECTORS (Continued)

Board Meetings

The Group adopted the practice of holding Board meetings for executive Directors regularly and holding Board meetings that included both executive Directors and non-executive Directors at least four times every year. The Board will also meet on other occasions when a board-level decision on a particular matter is required.

Generally, at least 14-days' notice for the Company's regular Board meeting, and reasonable time for all other meetings, would be given prior to such meetings. Agenda for a meeting are sent to all Directors prior to the meeting. The Directors will receive details of agenda items for decision at least three days before regular Board meetings.

In order to ensure that Board procedures, and all applicable rules and regulations are followed, all Directors are able to access the Company's company secretary for advice from time to time. Moreover, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors were given an opportunity to include matters in the agenda of meetings for discussion.

To ensure a competent Board operation, all Directors gave sufficient time and attention to the affairs of the Group during the Review Period. During the Review Period, 20 Board meetings (excluding delegated committees' meetings) were held and attendance of each Director is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Liu Kaijin	20	20
Ms. Zhou Shuhua	20	20
Non-executive Director		
Mr. Liu Longhua	19	20
Independent Non-executive Directors		
Ms. Leung Mei Han (retired 29 May 2013)	4	4
Ms. Peng Cuihong (resigned on 17 January 2014)	19	20
Mr. Huan Xuedong	20	20
Mr. Chan Ming Sun Jonathan	20	20
Mr. Xu Hengju (appointed on 17 January 2014)	N/A	N/A

Minutes of Board meetings and meetings of Board committees are kept by the company secretary or other duly authorised person. All minutes are open for inspection by any Director on reasonable notice. Such minutes are recorded in sufficient detail of the matters considered and decisions reached. Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records.

BOARD OF DIRECTORS (Continued)

Directors' Training

As part of an ongoing process of directors' training, the Company updates directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

For the year ended 31 December 2013, all Directors participated in appropriate continuous professional development activities summarised as follows:

Name of Director	Reading materials relevant to the Company's business or to their duties and responsibilities	Attending training courses on the topics related to corporate governance or regulations
Executive Directors:		
Mr. Liu Kaijin	√	√
Ms. Zhou Shuhua	√	√
Non-executive Director:		
Mr. Liu Longhua	√	√
Independent Non-executive Directors:		
Ms. Leung Mei Han (retired on 29 May 2013)	√	√
Ms. Peng Cuihong (resigned on 17 January 2014)	√	
Mr. Huan Xuedong	√	√
Mr. Chan Ming Sun Jonathan	√	√
Mr. Xu Hengju (appointed on 17 January 2014)	N/A	N/A

BOARD COMMITTEES

Remuneration Committee

The Company has set up a remuneration committee ("Remuneration Committee") with specific terms of reference with appropriate modification when necessary, which state clearly its authority and duties. To keep the Remuneration Committee's terms of reference in line with the Listing Rules amendments, the Board adopted new terms of reference of the Remuneration Committee in March 2012.

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

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

During the year ended 31 December 2013, the Remuneration Committee conducted review of the remuneration policy and structure of the Directors and senior management which will take into account the prevailing market condition and the responsibility of individual members. No change to the terms was proposed to the Board by the Remuneration Committee.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

In the band of	Number of individuals
Nil to HK$1,000,000	9

As at 31 December 2013, a majority of the Remuneration Committee's members are independent non-executive Directors. During the Review Period, one committee meetings were held and the attendance of each member as to the said meetings is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Non-executive Directors:		
Mr. Liu Longhua	1	1
Independent Non-executive Directors:		
Ms. Peng Cuihong# (resigned on 17 January 2014)	1	1
Ms. Leung Mei Han (retired on 29 May 2013)	1	1
Mr. Chan Ming Sun Jonathan	1	1
Mr. Xu Hengju# (appointed on 17 January 2014)	N/A	N/A

Ms. Peng Cuihong acted as the chairman of the Remuneration Committee until 17 January 2014. Mr. Xu Hengju was appointed as the chairman of the Remuneration Committee on 17 January 2014.

Nomination Committee

The Company has set up a nomination committee ("Nomination Committee") with specific terms of reference with appropriate modification when necessary, which state clearly its authority and duties. To keep the Nomination Committee's terms of reference in line with the Listing Rules amendments relating to board diversity, the Board adopted new terms of reference of the Nomination Committee including a Board Diversity Policy in August 2013.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

The following measurable objectives (the "Measurable Objectives") for the purpose of implementation of the Board Diversity Policy are adopted:

(A) at least 40% of the members of the Board shall be non-executive directors or independent non-executive directors;

(B) at least 65% of the members of the Board shall have attained bachelor's degree or above;

(C) at least 30% of the members of the Board shall have obtained accounting or other professional qualifications;

(D) at least 75% of the members of the Board shall have more than seven years of experience in the industry he is specialised in;

(E) at least 50% of the members of the Board shall have China-related work experience.

The principal duties of the Nomination Committee include reviewing the size, structure and composition of the Board, developing and formulating relevant policies and procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence and appropriateness of the independent non-executive Directors based on the criteria such as reputation for integrity, accomplishment and experience in the relevant sectors, professional and educational background, and potential time commitments.

The Nomination Committee has reviewed the size and composition of the Board for the year ended 31 December 2013. During the year, no new Director was appointed.

During the Review Period, one committee meeting was held and the attendance of each member as to the said meetings is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Non-executive Director:		
Mr. Liu Longhua#	1	1
Independent Non-executive Directors:		
Ms. Leung Mei Han (retired 29 May 2013)	—	—
Ms. Peng Cuihong (resigned on 17 January 2014)	1	1
Mr. Chan Ming Sun Jonathan	1	1
Mr. Xu Hengju (appointed on 17 January 2014)	N/A	N/A

Mr. Liu Longhua has acted as the chairman of the Nomination Committee.

BOARD COMMITTEES (Continued)

Audit Committee

The Company has established an audit committee ("Audit Committee") with specific written terms of reference that have included the duties which are set out in CG Code provision C.3.3 with appropriate modification when necessary. To keep the Audit Committee's terms of reference in line with the Listing Rules amendments, the Board adopted new terms of reference of the Audit Committee in March 2012.

The major role and function of the Audit Committee are to ensure the maintenance of proper relationship with the Company's auditor, the establishment of proper review and control arrangements relating to internal control systems, financial reporting and the compliance to applicable reporting requirements.

The Audit Committee reviewed the consolidated financial statements for the six months ended 30 June 2013 and consolidated financial statements for the year ended 31 December 2013, including the Group's adopted accounting principles and practices, internal control systems and financial reporting matters (in conjunction with the external auditor for the annual results). The Audit Committee also monitors the effectiveness of the external audit and oversees the appointment, remuneration and terms of engagement of the Company's external auditor, as well as its independence. The Audit Committee endorsed the accounting treatments adopted by the Company and, to the best of its ability assured itself that the disclosures of the financial information in this annual report comply with the applicable accounting standards and Appendix 16 to the Listing Rules.

As at 31 December 2013, the Audit Committee comprised three independent non-executive Directors and regular Audit Committee meetings were held pursuant to its terms of reference. During the Review Period, two committee meetings were held in the attendance of the external auditor, and the attendance of each member as to the said meetings is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Independent Non-executive Directors:		
Ms. Leung Mei Han# (retired on 29 May 2013)	1	1
Ms. Peng Cuihong (resigned on 17 January 2014)	2	2
Mr. Huan Xuedong	2	2
Mr. Chan Ming Sun Jonathan#	2	2
Mr. Xu Hengju (appointed on 17 January 2014)	N/A	N/A

Ms. Leung Mei Han acted as the chairman of the Audit Committee up to 29 May 2013 and Mr. Chan Ming Sun, Jonathan has acted as the chairman of the Audit Committee since 29 May 2013.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or the management of the Company or their respective associates (as defined under the Listing Rules) have any interests in a business which competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

The Company has received from each of the Directors an annual confirmation of his/her undertaking as to non-competition.

FINANCIAL REPORTING AND AUDIT

The Directors acknowledged their responsibility for preparing the financial statements that give a true and fair view in accordance with applicable statutory requirements and accounting standards and the requirements of the Listing Rules. The Group adopted the going concern basis in preparing its financial statements.

A statement by the external auditor of the Company about its reporting responsibilities is set out in the section headed "Independent Auditor's Report" in this annual report.

During the year ended 31 December 2013, remuneration in respect of non-audit services, namely, the review of interim report and review of continuing connected transactions provided by Deloitte Touche Tohmatsu amounted to about RMB593,000 and RMB221,000. The remuneration in respect of audit service was amounted to about RMB2,370,000.

INTERNAL CONTROL

The Board is responsible for internal control which, as the Directors determine, is necessary to enable the preparation of the financial statements that are free from material misstatement. It has overseen the Group's internal control systems and ensure that sound and effective control systems are maintained. The Board approves and reviews internal control policies while day-to-day management of operational risks and implementation of mitigation measures lie with the management.

A review of the effectiveness of the Group's internal control systems has been conducted with the scopes recommended by the Audit Committee. The Audit Committee and the Board have reviewed the internal control report, and concluded that the key areas of the Group's internal control systems are reasonably and adequately implemented to their satisfaction, with room of improvement.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

General Meetings with Shareholders

The Company communicates with its Shareholders through its annual report, interim report and statutory and voluntary announcements. The Directors, company secretary or appropriate members of senior management, where appropriate, also respond to inquiries from Shareholders and investors on a timely basis.

The Company's annual general meeting provides a useful platform for direct communication between the Board and Shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings. The 2012 AGM was held on 29 May 2013.

Resolutions put to vote at the general meetings of the Company are taken by poll. Procedures regarding the conduct of the poll are explained to the Shareholders at the commencement of each general meeting. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS (Continued)

General Meetings with Shareholders (Continued)

Except for Ms. Peng Cuihong who due to other engagement, did not attend the 2012 AGM, all Directors who held office at time of respective general meetings attended the 2012 AGM. Pursuant to Code Provision A.6.7 of the CG code, independent non-executive Directors should attend general meetings. To ensure compliance in the future, the Company will take all reasonable measures to arrange the schedule in such a cautious way that all Directors (including the independent non-executive Directors) may attend the general meetings.

Mr. Liu Kaijin, joint chairman of the Board, has invited chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee to attend the general meetings. In the absence of chairman of the Remuneration Committee, all other members of the Remuneration Committee attended the general meetings. Representative of the Company's external auditor also attended the 2012 AGM.

Shareholders' Rights to Convene Extraordinary General Meeting and Put Forward Proposals at General Meetings

In accordance with Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company's company secretary for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There is no provision in the Articles setting out procedures for Shareholders to put forward a resolution at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards proposing a person for election as a Director by Shareholders, please refer to the procedures available on the website of the Company.

Investor Relations

The Company endeavours to disclose all material information about the Group to all interested parties as widely and timely as possible. It has disclosed all necessary information to the Shareholders in compliance with the Listing Rules. When announcements are made through the Stock Exchange, the same information will be made available on the Company's website. During the year ended 31 December 2013, the Company has issued announcements which can be viewed on the Company's website.

Shareholders and investors may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong or through the e-mail address: info@cdep.com.hk. Shareholders may also raise their enquiries in general meetings.

The Directors are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and of the Group at that date are set out in the accompanying financial statements.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2013.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 23 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, redeemed or sold any listed securities of the Company.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in the statement of financial position of the Company on page 6 and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company has no reserve available for distribution as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands. Under the laws of the Cayman Islands, the share premium account is distributable to the Shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue to the Group's five largest customers accounted for about 71% (2012: 68.9%) of the Group's total revenue for the year and the revenue from the largest customer included therein accounted for about 24% (2012: 33.7%) of the Group's total revenue.

The Group's five largest customers comprise PRC state-owned companies and private enterprises which have business relationships with the Group for a period ranging from two to five years. Services provided to them by the Group include capital and reclamation dredging business, and environmental protection dredging and water management business. Their contracts with the Group were project-based, which provided for either monthly progress payments with reference to the value of work completed each month or annual payments with a fixed percentage for each year throughout the contract period. Such credit terms were in line with those granted to other customers of the Group. No long-term agreements had been entered into between the Group's five largest customers and the Group.

As at 10 March 2014, subsequent settlement of trade receivables with the Group's five largest customers after 31 December 2013 amounted to RMB$92.7 million. The Group is in the view that provisions for doubtful debts are not necessary in light of the financial background and historical and subsequent repayments of these major customers (please see note 17 to the financial statements in this annual report for details).

Since the Group's major customers accounted for a significant portion of the Group's total revenue for the year, if in the future the Group loses one of its major customers or if any of the Group's major customers significantly reduces its volume of business with the Group while the Group is unable to get new projects from other existing and/or potential customers, net revenues and profitability of the Group would be heavily reduced. Nonetheless, the Group believes that it has developed close relationships with its major customers that they cannot easily replace the Group with other suppliers. The Group has also entered into contracts with and will continue to seek business from other customers.

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

In the year under review, supplies from the Group's five largest suppliers accounted for about 53% (2012: 46.9%) of the Group's total operating cost for the year and supplies from the largest supplier included therein accounted for about 17% (2012: 22.8%) of the Group's total operating cost.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers for the year ended 31 December 2013.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for those disclosed in the paragraphs headed "Share Option Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" in this Directors' report in this annual report, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors:

Mr. Liu Kaijin
Ms. Zhou Shuhua

Non-executive Directors:

Mr. Liu Longhua

Independent Non-executive Directors:

Ms. Leung Mei Han	(retired on 29 May 2013)
Ms. Peng Cuihong	(resigned on 17 January 2014)
Mr. Huan Xuedong	
Mr. Chan Ming Sun Jonathan	
Mr. Xu Hengju	(joined on 17 January 2014)

In accordance with article 109 of the Articles, Mr. Xu Hengju will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with article 105(A) of the Articles, Mr. Liu Longhua and Mr. Huan Xuedong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE CONFIRMATIONS FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Director a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a Director's service contract and each of the non-executive Directors signed a letter of appointment with the Company for an initial term of three years commencing from their respective date of appointment. All of them are subject to retirement by rotation and re-election in accordance with the Articles.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save for those disclosed in the financial statements, no Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Save for the Contractual Arrangements between subsidiaries of the Group, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2013:

On 19 April 2011, the following entities entered into the Contractual Arrangements pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC:

(i) Xiangyu PRC, a wholly foreign-owned enterprise and a wholly-owned subsidiary of the Company,
(ii) Jiangsu Xingyu, a limited liability company established in the PRC and deemed to be a wholly-owned subsidiary of the Company under the Contractual Arrangements, and
(iii) equity interests holders of Jiangsu Xingyu, namely Mr. Liu and Ms. Zhou (both of them are executive Directors and controlling shareholders of the Company).

Further details of which are described in note 38 to the financial statements.

The Stock Exchange has granted a waiver pursuant to Rule 14A.42(3) of the Listing Rules to the Company for all transactions under the Contractual Arrangements from strict compliance with the applicable announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors confirm that during the Review Period, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (save for the exemptions granted under the above-mentioned waiver).

The independent non-executive Directors have confirmed that the above-mentioned continuing connected transactions were entered into:

(i) in the ordinary and usual course of the Group's business;
(ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the Shareholders of the Company as a whole; and
(iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

Besides, the independent non-executive Directors have conducted an annual review on the Contractual Arrangements and have confirmed that:

(i) the transactions carried out during the year ended 31 December 2013 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that all revenue generated by Jiangsu Xingyu has been retained by Xiangyu PRC;
(ii) no dividends or other distributions have been made by Jiangsu Xingyu to its equity interest holders; and
(iii) any new contracts or renewed contracts have been entered into on the same terms as the existing Contractual Arrangements and are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS (Continued)

In accordance with Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has confirmed that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;
b. nothing has come to the auditor's attention that causes the auditor to believe that the said transactions were not entered into in accordance with the relevant agreements governing such transactions; and
c. nothing has come to the auditor's attention that causes the auditor to believe that dividends or other distributions have been made by Jiangsu Xingyu to the holders of its equity interests.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 33 to the consolidated financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the paragraph headed "Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

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 Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

Further details of the terms of the Share Option Scheme are set out in note 26 to the consolidated financial statements.

SHARE OPTION SCHEME (Continued)

Details of the eleven share options granted during the year ended 31 December 2013 are as follows:

Name or category of participant	Number of underlying Shares (subject of the share options) Outstanding at 1 January 2013	Granted during the year	Cancelled during the year	Outstanding at 31 December 2013	Date of offer	Exercisable period	Closing price immediately before the date of offer (HK$ per Share)	Exercise price* (HK$ per Share)
Employees of the Group								
In aggregate	42,000,000	—	—	42,000,000	30 March 2012	19 April 2012 to 30 March 2014 (note a)	2.04	2.192
Others								
In aggregate	12,000,000	—	—	12,000,000	30 March 2012	19 April 2013 to 30 March 2014 (note b)	2.04	2.192
In aggregate	12,000,000	—	—	12,000,000	29 May 2012	18 June 2013 to 29 May 2014 (note c)	1.85	1.920
In aggregate	—	7,600,000	—	7,600,000	2 September 2013	17 January 2014 to 1 September 2015 (d)	2.13	2.176
Total	66,000,000	7,600,000	—	73,600,000				

Notes:

(a) Immediately vested.

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

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

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

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

Each of the option is granted for consideration of HK$1.

As at 31 December 2013, the Company had outstanding options to subscribe for up to 73,600,000 Shares as per share options granted under the Share Option Scheme. There were no share options exercised or lapsed in the year ended 31 December 2013.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the Directors and the Company's chief executive, and their respective associates had the following interests in the Shares in and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have been taken under such provisions of the SFO) or pursuant to the Model Code, or were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO:

Interests in the Company

			Long position	
Name of Director	**Capacity**	**Notes**	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Mr. Liu Kaijin	Interest in controlled corporation	1	325,100,000	40.64%
	Beneficial owner	1	10,653,000	1.33%
Ms. Zhou Shuhua	Interest in spouse	2	335,753,000	41.97%

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. Further, Mr. Liu is the beneficial owner of 10,653,000 Shares.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Interests in associated corporations

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

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji. His 100% shareholding interest in Wangji charged in favour of Apex Ally Investments Limited and Hong Jun Investment Limited as stated under the section headed "Pre-IPO Investments" in the Company's prospectus dated 8 June 2011 has been discharged and released to Mr. Liu. (please refer to voluntary announcement of the Company made on 19 July 2013 and 29 July 2013 respectively). Mr. Liu is also the sole beneficial owner of the entire registered capital of Jiangsu Xingyu. Mr. Liu and Ms. Zhou are 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 also a Director. By virtue of the SFO, Ms. Zhou is deemed to be interested in all interests of Mr. Liu in the associated corporations including long positions and short position.

Saved as disclosed above, none of the Directors and chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation as at 31 December 2013 (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 31 December 2013, other than those set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" in this annual report as recorded in the register required to be kept under Section 336 of the SFO, to the best of the knowledge and belief of the Directors, no person 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.

AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

Details of the Audit Committee, Remuneration Committee and Nomination Committee are set out in section headed "Corporate Governance Report" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

AUDITOR

Deloitte Touche Tohmatsu retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Kaijin
Joint Chairman

Hong Kong, 27 March 2014

Deloitte.
德勤

TO THE MEMBERS OF CHINA DREDGING ENVIRONMENT PROTECTION HOLDINGS LIMITED
中國疏浚環保控股有限公司
(FORMERLY KNOWN AS XIANGYU DREDGING HOLDINGS LIMITED前稱翔宇疏浚控股有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Dredging Environment Protection Holdings Limited (formerly known as Xiangyu Dredging Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 126, which comprise the consolidated statement of financial position as at 31st December, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 31st December, 2013, and of the Group's profit and cash flows for the year then ended 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Revenue	6	**973,615**	966,027
Operating cost		**(624,187)**	(636,613)
Gross profit		**349,428**	329,414
Other income	7	**31,147**	37,384
Fair value changes of derivative financial liabilities	25	**(19,511)**	—
Marketing and promotion expenses		**(13,232)**	(15,230)
Administrative expenses		**(47,513)**	(38,707)
Finance costs	8	**(40,502)**	(17,975)
Profit before tax		**259,817**	294,886
Income tax expense	9	**(78,535)**	(80,494)
Profit and total comprehensive income for the year	10	**181,282**	214,392
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**164,757**	199,495
Non-controlling interests		**16,525**	14,897
		181,282	214,392
Earnings per share	12		
— basic (RMB)		**0.21**	0.25
— diluted (RMB)		**0.21**	0.25

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,693,267**	1,375,046
Prepaid land lease payments	15	**90,599**	92,800
Goodwill		**2,956**	201
Intangible assets	28	**2,560**	—
Available-for-sale investment	16	**17,147**	—
Deposit paid for acquisition of property, plant and equipment		**551**	—
Accounts and other receivables due after one year	17	**219,470**	109,463
		2,026,550	1,577,510
CURRENT ASSETS			
Prepaid land lease payments	15	**2,410**	2,410
Accounts and other receivables	17	**1,016,708**	910,867
Pledged bank deposits	18	**53,521**	76,017
Bank balances and cash	18	**312,183**	30,395
		1,384,822	1,019,689
CURRENT LIABILITIES			
Accounts and other payables	19	**524,638**	382,925
Amounts due to directors	20	**1,792**	7,732
Amounts due to non-controlling interests of a subsidiary	21	**4,952**	—
Tax payable		**109,931**	97,573
Bank borrowings	22	**631,349**	434,000
Other borrowings	22	**6,244**	33,236
		1,278,906	955,466
NET CURRENT ASSETS		**105,916**	64,223
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,132,466**	1,641,733

	Notes	2013 RMB'000	2012 RMB'000
CAPITAL AND RESERVES			
Share capital	23	**67,200**	67,200
Reserves		**1,528,223**	1,389,148
Equity attributable to owners of the Group		**1,595,423**	1,456,348
Non-controlling interests		**134,728**	87,527
TOTAL EQUITY		**1,730,151**	1,543,875
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary	21	**90,708**	76,002
Deferred tax liabilities	24	**20,063**	21,856
Bank borrowings	22	**60,717**	—
Other borrowings	22	**21,003**	—
Convertible bonds	25	**172,056**	—
Derivative financial liabilities	25	**37,768**	—
		402,315	97,858
		2,132,466	1,641,733

The consolidated financial statements on pages 53 to 126 were approved and authorised for issue by the board of directors on 27 March 2014 and are signed on its behalf by:

LIU KAIJIN
DIRECTOR

ZHOU SHUHUA
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2013

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	PRC statutory reserve RMB'000 *(note i)*	Other reserve RMB'000 *(note ii)*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	67,200	431,811	—	13,549	204,554	512,867	1,229,981	—	1,229,981
Profit and total comprehensive income for the year	—	—	—	—	—	199,495	199,495	14,897	214,392
Dividend declared *(Note 13)*	—	(12,960)	—	—	—	—	(12,960)	—	(12,960)
Recognition of equity-settled share-based payments *(Note 26)*	—	—	9,156	—	—	—	9,156	—	9,156
Acquisition of a subsidiary *(Note 27(b)(iii))*	—	—	—	—	30,676	—	30,676	72,630	103,306
At 31 December 2012	67,200	418,851	9,156	13,549	235,230	712,362	1,456,348	87,527	1,543,875
Profit and total comprehensive income for the year	—	—	—	—	—	164,757	164,757	16,525	181,282
Recognition of equity-settled share-based payments *(Note 26)*	—	—	4,994	—	—	—	4,994	—	4,994
Release of non-controlling interests	—	—	—	—	(30,676)	—	(30,676)	30,676	—
At 31 December 2013	67,200	418,851	14,150	13,549	204,554	877,119	1,595,423	134,728	1,730,151

notes:

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

(ii) The other reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of the share capital and share premium of it subsidiaries, including the paid-in capital of RMB39,316,000 of the PRC Operational Entity (as defined in Note 38) pursuant to the group reorganisation in 2011.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**259,817**	294,886
Adjustments for:			
Depreciation of property, plant and equipment		**80,202**	56,209
Fair value changes of derivative financial liabilities		**19,511**	—
Amortisation of prepaid land lease payments		**2,410**	1,205
Loss (gain) on disposal of property, plant and equipment		**35**	(46)
Share-based payment expense		**4,994**	9,156
Finance costs		**40,502**	17,975
Interest income		**(13,902)**	(19,586)
Operating cash flows before movements in working capital		**393,569**	359,799
Increase in accounts and other receivables		**(300,030)**	(160,748)
(Decrease) increase in accounts and other payables		**(114,645)**	99,596
Cash (used in) generated from operations		**(21,106)**	298,647
PRC income tax paid		**(67,970)**	(95,514)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(89,076)**	203,133
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(68,316)**	(384,382)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	27	**(85,426)**	(17,092)
Deposit paid for acquisition property, plant and equipment		**(551)**	—
Acquisition of interests in Yongheng		**(400)**	—
Payment for prepaid land lease payments		**(209)**	(89,415)
Consideration received from Hongji Construction		**80,000**	—
Pledged bank deposits withdrawn (placed)		**22,496**	(73,017)
Interest received		**1,906**	2,805
Proceeds from disposals of property, plant and equipment		**—**	65
NET CASH USED IN INVESTING ACTIVITIES		**(50,500)**	(561,036)

	2013 RMB'000	2012 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**750,770**	434,000
Advance from independent third parties	**351,520**	—
Proceeds on issue of convertible bonds	**191,970**	—
Advance from a director	**28,225**	334,391
New other borrowings raised	**16,214**	1,158
Advance from non-controlling interests of a subsidiary	**14,269**	871
Repayment of bank borrowings	**(492,704)**	(82,995)
Repayment to independent third parties	**(351,520)**	—
Repayment to directors	**(34,165)**	(393,980)
Interest paid	**(34,058)**	(17,975)
Repayment of other borrowings	**(11,170)**	—
Repayment to non-controlling interests of a subsidiary	**(7,987)**	—
Dividend paid	**—**	(12,960)
NET CASH FROM FINANCING ACTIVITIES	**421,364**	262,510
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**281,788**	(95,393)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**30,395**	125,788
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**312,183**	30,395

1. GENERAL

The Company was incorporated as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares ("Shares") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate controlling party is Mr. Liu Kaijin ("Mr. Liu"), who is the Joint Chairman and Chief Executive Officer of the Company. 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 Company acts as an investment holding company and the particulars of its subsidiaries are set out in Note 38 to the consolidated financial statements.

Pursuant to a special resolution passed by the shareholders at an extraordinary general meeting of the Company held on 13 December 2013, the name of the Company was changed from Xiangyu Dredging Holdings Limited to China Dredging Environment Protection Holdings Limited.

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

2. GOING CONCERN BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013, the Group has bank borrowings of approximately RMB631.3 million and other liabilities of approximately RMB647.6 million payable within one year from the end of the reporting period. While the Group has only bank and cash balances of RMB312.2 million at 31 December 2013, the Group's ability to repaid its debts when they fall due relies heavily on the accounts receivables being settled within the management's expectation.

In view of the above, the directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the reporting period; (ii) all the bank borrowings as at 31 December 2013 were secured by the Group's assets and are therefore highly probable that they can be renewed in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB166 million as at 31 December 2013 which will not mature in the next twelve months.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied, for the first time in the current year, the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12,	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *"Consolidated and Separate Financial Statements"* that deal with consolidated financial statements and HK(SIC) Int-12 *"Consolidation — Special Purpose Entities"*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In addition, detailed guidance has been established in HKFRS 10 to explain when an investor that owns less than 50 percent of voting shares in an investee has control over the investee. HKFRS 10 requires investor to take into account contractual arrangements with other vote holders and right from other contractual arrangements.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over a structured entity in the PRC and other subsidiaries in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that it has had control over the structured entity as the relevant activities are directed by means of the Contractual Arrangement (as defined in Note 38(ii)). In accordance with the requirements of HKFRS 10, the Group continues to account for the structured entity and the other subsidiaries as subsidiaries. The adoption of HKFRS 10 has no material effect on the Group's financial performance and positions for the current and prior years.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries and unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see Note 38 for details).

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Other than this change, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as explained above, the application of the above new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years, and 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 9	Financial Instruments[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[2]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[2]
HK(IFRIC)-Int 21	Levies[2]

1 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

2 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 July 2014, with limited exemptions.

4 Effective for annual periods beginning on or after 1 July 2014. Early application is permitted.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

HKFRS 9 requires that all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Based on the Group's financial assets and financial liabilities as at 31 December 2013, the application of HKFRS 9 will mainly affect the classification and measurement of the Group's available for sale equity investments.

The directors do not anticipate that the application of other new and revised HKFRSs will have a material impact on the results and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 and leasing transactions that are within the scope of HKAS 17.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary, including a subsidiary acquired exclusively with a view to subsequent resale, and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Business combinations

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation is initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

In respect of acquisition of a subsidiary which does not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed. The consideration transferred in the acquisition is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of acquisition. Such transaction does not give rise to goodwill.

Non-current assets or disposal groups held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the assets or disposal groups are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets or disposal groups and their sale is highly probable, Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group acquires a subsidiary exclusively with a view to its subsequent disposal, the Group classifies the subsidiary as held for sale at acquisition date only if the one year requirement is met, and that sale is highly probable.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any as established at the date of acquisition of the business.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

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. Revenue is reduced for estimated customer returns, rebates and other similar allowances in the normal cause of business, net of sales related taxes.

Service income is recognised when services are provided in the normal cause of business, net of sales related taxes. Income is recognised when the quantum of the services is measured and agreed by the Group and the customers, as evidenced by progress certificates, using the unit price stipulated in the contracts.

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 including buildings and leasehold land (classified as finance leases) held for use in the production or supply of service or administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for or a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible 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

A series of transactions that involve the legal form of a lease is linked and accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions a whole. The accounting reflects the substance of the arrangement.

An arrangement that involves a legal form of a lease is not, in substance, accounted for as a lease if:

(a) the Group retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;

(b) the primary reason for the arrangement is not to convey the right to use an asset; and

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

(c) an option is included on terms that make its exercise almost certain.

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 lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 recognised as an expense when employees have rendered service entitling them to the contributions. For forfeited contributions that are not vest fully, if any, may be used to reduce the existing level of 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.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred Tax

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 goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred Tax (Continued)

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.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses.

Financial instruments

Financial assets and financial liabilities are recognised 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 receivables and available-for-sale investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 and points 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 debt instrument, 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. Loans and receivables (including accounts and other receivables, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated its equity interest in a private entity as AFS financial assets in which the Group has no control or significant influence.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of 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 considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as 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 loans and receivables, such as accounts and other receivables, assets that are assessed not to be impaired individually are, in addition, 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.

An impairment loss for loan and receivables 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 loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of accounts 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 an accounts and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For loans and receivables, 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 loss 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.

For AFS financial assets carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the AFS equity instruments and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Convertible bonds

Convertible bonds issued by the Group that contain both debt and conversion option components are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity instrument on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the debt and conversion option components are recognised at fair value.

In subsequent periods, the debt component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative together with other embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Embedded derivative financial liabilities

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the consolidated instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Other financial liabilities

Other financial liabilities (including accounts and other payables, amounts due to directors, amounts due to non-controlling interests of a subsidiary and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the 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. For consideration received or receivable in the form of non-monetary assets, the non-monetary assets are initially measured at fair value.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements

Share-based payment transactions of the Company

Share options granted to employees and consultants providing services similar to employees

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest, services and non-market performance vesting conditions are included in assumptions about the number of share options that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Share options granted to advisors

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. Market conditions, such as a target share price upon which vesting is conditional, are taken into account when estimating the fair value of the options granted. The fair values of the goods or services received are recognised as expenses, when the Group obtains the goods or when the counterparties render services, irrespective of whether that market condition is satisfied. Corresponding adjustment has been made to equity (share options reserve).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 to the consolidated financial statements, the directors 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

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

Consolidation of a structured entity

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

On 19 April 2011, Xiangyu PRC (as defined in Note 38), the PRC Operational Entity (as defined in Note 38) and its respective equity participants, being Mr. Liu and Ms. Zhou Shuhua ("Ms. Zhou") entered into the Contractual Arrangements (as defined in Note 38). The PRC Operational Entity and its subsidiaries are engaged in the provision of dredging services of the Group. Detail of the Contractual Arrangements are set out in Note 38.

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

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

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

Key sources of estimation uncertainty

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated allowance for accounts and other receivables

Management regularly reviews the recoverability of accounts and other receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at the original effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required. No allowance for accounts and other receivables were provided for both years.

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

Dredgers and plant and machinery included in property, plant and equipment are depreciated over their useful lives. The assessment of estimated useful lives and residual values are matters of judgment based on the experience of the Group, taking into account factors such as technological progress, conditions of the dredgers and plant and machinery and changes in market demand. Useful lives and residual values are periodically reviewed for continued appropriateness. Due to the long lives of the dredgers and plant and machinery, changes to the estimates used can affect the amount of depreciation to be charged to profit or loss in each reporting period and consequently affect their carrying value at the end of the reporting period. There was no change in the estimated useful lives or residual values of property, plant and equipment for both years.

Fair value of derivative financial liabilities

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

As described in Note 25, the third party valuer uses their judgment in selecting an appropriate valuation technique for the derivative financial liabilities not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The carrying amount of the derivative financial liabilities as at 31 December 2013 is HK$37,768,000 (31 December 2012: nil). Details of the assumptions used are disclosed in Notes 25 and 35(c). The directors believe that the valuation techniques and assumptions used by the valuer are appropriate in determining the fair value of derivative financial liabilities.

6. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors who are also the chief operating decision makers that are used to make strategic decisions. Information reported to the chief operating decision makers is based on the different nature of projects carried out by the Group. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

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

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

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

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

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment results

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

	Capital and Reclamation Dredging Business RMB'000	Environmental Protection Dredging and Water Management Business RMB'000	Dredging Related Construction Business RMB'000	Other Marine Business RMB'000	Total RMB'000
For the year ended 31 December 2013					
Segment revenue	437,403	325,228	42,316	168,668	973,615
Segment results	177,688	113,115	3,591	49,186	343,580
Other income					17,864
Fair value changes of derivative financial liabilities					(19,511)
Unallocated corporate expenses					(47,928)
Finance costs					(34,188)
Group's profit before tax					259,817
Other information:					
Depreciation of property, plant and equipment	46,358	11,891	4,634	17,319	80,202

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment results (Continued)

	Capital and Reclamation Dredging Business RMB'000	Environmental Protection Dredging and Water Management Business RMB'000	Dredging Related Construction Business RMB'000	Other Marine Business RMB'000	Total RMB'000
For the year ended 31 December 2012					
Segment revenue	533,715	223,827	74,167	134,318	966,027
Segment results	193,673	70,503	7,642	43,065	314,883
Other income					35,386
Unallocated corporate expenses					(41,637)
Finance costs					(13,746)
Group's profit before tax					294,886
Other information:					
Depreciation of property, plant and equipment	33,410	4,750	2,185	15,864	56,209

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4 to the consolidated financial statements. Segment results represent profit earned by each segment, without allocation of central administrative expenses, fair value changes of derivative financial liabilities, certain other income and certain finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and performance assessment.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets

	Capital and Reclamation Dredging Business RMB'000	Environmental Protection Dredging and Water Management Business RMB'000	Dredging Related Construction Business RMB'000	Other Marine Business RMB'000	Total RMB'000
At 31 December 2013					
Segment assets	**1,551,942**	**501,307**	**198,046**	**483,318**	**2,734,613**
Unallocated assets:					
Prepaid land lease payments					**93,009**
Pledged bank deposits					**53,521**
Available-for-sale investment					**17,147**
Consideration receivable (included in accounts and other receivables)					**172,968**
Shareholder's loan to Yongheng (defined in Note 16) (included in accounts and other receivables)					**18,578**
Bank balances and cash					**312,183**
Others					**9,353**
Consolidated assets					**3,411,372**
At 31 December 2012					
Segment assets	1,513,250	402,654	16,857	458,754	2,391,515
Unallocated assets:					
Prepaid land lease payments					95,210
Pledged bank deposits					76,017
Bank balances and cash					30,395
Others					4,062
Consolidated assets					2,597,199

For the purpose of monitoring segment performances and allocating resources between segments, assets are allocated to reportable and operating segments other than the unallocated items listed above.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment liabilities

As the liabilities are regularly reviewed by the chief operating decision makers in total for the Group as a whole, the measure of total 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 non-current assets (excluding the AFS investment and other financial assets) are located in the PRC, no geographical information is presented.

Information about major customers

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

	2013 **RMB'000**	2012 RMB'000
Customer A		
— Capital and Reclamation Dredging Business	**235,346**	325,205
Customer B		
— Environmental Protection Dredging and Water Management Business	**151,812**	—
Customer C *(note)*		
— Capital and Reclamation Dredging Business	**124,798**	N/A
Customer D *(note)*		
— Environmental Protection Dredging and Water Management Business	**116,896**	N/A
Customer E		
— Environmental Protection Dredging and Water Management Business	**—**	141,252

Note: Customers C and D did not contribute over 10% of the Group's total revenue for the year ended 31 December 2012.

7. OTHER INCOME

	2013	2012
	RMB'000	RMB'000
Government financial incentive *(note)*	**16,041**	17,105
Bank interest income	**1,906**	2,805
Interest income in respect of non-current accounts receivable	**11,996**	16,781
Gain on disposal of property, plant and equipment	**—**	46
Sundry income	**1,204**	647
	31,147	37,384

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

In 2013, the PRC local government authority confirmed that the amount of such financial incentive that the Group was entitled for the year ended 31 December 2013 was RMB16,041,000 (2012: RMB17,105,000). Accordingly, the Group recognised such amount as other income for the year ended 31 December 2013.

8. FINANCE COSTS

	2013	2012
	RMB'000	RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	**33,563**	16,597
Discounted bills receivable	**495**	647
Other borrowings	**1,327**	731
Amounts due to non-controlling interests	**1,015**	—
Effective interest on convertible bonds *(Note 25)*	**4,102**	—
	40,502	17,975

9. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
The charge comprises		
Current tax		
PRC Enterprise Income Tax ("EIT")	**80,328**	82,314
Deferred taxation *(Note 24)*	**(1,793)**	(1,820)
	78,535	80,494

The tax charge for the year can be reconciled to the profit before tax as follows:

	2013 RMB'000	2012 RMB'000
Profit before tax	**259,817**	294,886
Tax at the PRC EIT rate of 25% (2012: 25%)	**64,954**	73,722
Tax effect of expenses not deductible for tax purpose	**13,581**	6,772
Tax charge for the year	**78,535**	80,494

(i) PRC EIT

PRC EIT is calculated at 25% of the assessable profits for both years.

(ii) Hong Kong Profits Tax

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

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for both years.

10. PROFIT FOR THE YEAR

	2013 RMB'000	2012 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2,370**	1,738
Depreciation of property, plant and equipment	**80,202**	56,209
Amortisation of prepaid land lease payments	**2,410**	1,205
Net foreign exchange losses (included in administrative expenses)	**2,307**	164
Directors' emoluments *(Note 11)*	**4,401**	6,595
Share-based payment expense *(Note 26)*	**4,994**	9,156
Other staff costs	**41,922**	37,856
Retirement benefit scheme contributions, excluding those of directors	**2,636**	2,070
Total staff costs	**53,953**	55,677
Loss (gain) on disposal of property, plant and equipment	**35**	(46)
Sub-contracting charges included in operating cost	**568,954**	330,178

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and Chief Executive

Details of the emoluments paid or payable to the directors and the Chief Executive during the year are as follows:

For the year ended 31 December 2013

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive directors:				
Mr. Liu *(note)*	2,726	—	—	2,726
Ms. Zhou	1,152	—	—	1,152
	3,878	—	—	3,878
Non-executive director:				
Mr. Liu Longhua	—	—	—	—
Independent non-executive directors:				
Mr. Chan Ming Sun Jonathan	146	—	—	146
Ms. Peng Cuihong (resigned on 17 January 2014)	148	—	—	148
Mr. Huan Xuedong	148	—	—	148
Ms. Leung Mei Han (retired on 29 May 2013)	81	—	—	81
	523	—	—	523
	4,401	—	—	4,401

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

For the year ended 31 December 2012

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive directors:				
Mr. Liu *(note)*	3,783	—	—	3,783
Ms. Zhou	1,701	—	—	1,701
	5,484	—	—	5,484
Non-executive directors:				
Mr. Liu Longhua (appointed on 25 April 2012)	—	—	—	—
Mr. Dong Li Yong (resigned on 25 April 2012)	647	—	—	647
	647	—	—	647
Independent non-executive directors:				
Mr. Chan Ming Sun Jonathan (appointed on 30 November 2012)	13	—	—	13
Ms. Leung Mei Han	199	—	—	199
Mr. Zhang Jun (retired on 15 May 2012)	—	—	—	—
Ms. Peng Cuihong	150	—	—	150
Mr. Huan Xuedong (appointed on 25 April 2012)	102	—	—	102
	464	—	—	464
	6,595	—	—	6,595

note: Mr. Liu is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The directors' and Chief Executive's emoluments of the Company had been determined by the board of directors with advices from the remuneration committee of the Company.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

Of the Group's five highest paid individuals during the year, two (2012: two) of them were directors and Chief Executive whose emoluments are presented above. The emoluments of the remaining highest paid individuals, were as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other allowances	**1,379**	720
Retirement benefit scheme contributions	**47**	19
Share-based payments	**—**	3,248
	1,426	3,987

Their emoluments were within the following bands:

	2013 No. of employees	2012 No. of employees
Nil to HK$1,000,000 (RMB790,000)	**3**	—
HK$1,500,001 (RMB1,185,001) to HK$2,000,000 (RMB1,580,000)	**—**	3

During both years, no emoluments were paid by the Group to any of the directors, Chief Executive or the five highest paid individuals (including directors, Chief Executive 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 emoluments for the year ended 31 December 2012 of approximately RMB56,000, none of the directors waived any emoluments during both years.

12. EARNINGS PER SHARE

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

	2013 **RMB'000**	2012 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted and diluted earnings per share	**164,757**	199,495
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**800,000**	800,000
Effect of dilutive potential ordinary shares:		
Options	**403**	173
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**800,403**	800,173

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

13. DIVIDENDS

	2013 **RMB'000**	2012 RMB'000
Dividends recognised as distribution during the year:		
2012 Interim dividend of HK2 cents per share (2013: nil)	**—**	12,960

The directors do not recommend the payment of final dividend for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Dredgers and vessels RMB'000	Plant and machinery RMB'000	Furniture, fittings and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2012	4,221	244	712,499	25,795	418	5,224	257	748,658
Acquisition of a subsidiary *(Note 27(b))*	3,637	—	254,035	3,164	386	2,034	63,970	327,226
Additions	—	—	304,877	8,472	331	2,714	82,429	398,823
Transfer	—	—	139,310	7,346	—	—	(146,656)	—
Disposals	—	—	—	—	—	(380)	—	(380)
At 31 December 2012	7,858	244	1,410,721	44,777	1,135	9,592	—	1,474,327
Acquisition of a subsidiary *(Note 27(a))*	—	—	295,399	—	—	203	—	295,602
Additions	—	—	7,939	32,786	408	264	61,459	102,856
Transfer	—	—	6,528	2,906	—	—	(9,434)	—
Disposals/write-off	—	—	(1,014)	(727)	(26)	(26)	—	(1,793)
At 31 December 2013	7,858	244	1,719,573	79,742	1,517	10,033	52,025	1,870,992
ACCUMULATED DEPRECIATION								
At 1 January 2012	345	131	35,651	4,674	115	2,517	—	43,433
Provided for the year	242	113	50,424	3,305	330	1,795	—	56,209
Eliminated on disposals	—	—	—	—	—	(361)	—	(361)
At 31 December 2012	587	244	86,075	7,979	445	3,951	—	99,281
Provided for the year	352	—	72,776	5,256	160	1,658	—	80,202
Eliminated on disposals/write-off	—	—	(979)	(727)	(26)	(26)	—	(1,758)
At 31 December 2013	939	244	157,872	12,508	579	5,583	—	177,725
CARRYING VALUE								
At 31 December 2013	6,919	—	1,561,701	67,234	938	4,450	52,025	1,693,267
At 31 December 2012	7,271	—	1,324,646	36,798	690	5,641	—	1,375,046

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

As the lease payments relating to the leasehold property cannot be allocated reliably between the 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.

Depreciation is charged so as to write off the cost of assets (other than construction in progress), 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	2–4% or over the term of the lease, whichever is shorter
Leasehold improvements	20% or over the term of the lease, whichever is shorter
Dredgers and vessels	5%–6.7%
Plant and machinery	5%–20%
Furniture, fittings and office equipment	10%–33.3%
Motor vehicles	16.7%–20%

The net book value of dredgers and vessels of RMB1,561,701,000 includes an amount of RMB269,630,000 (2012: nil) in respect of assets held as collaterals for a bank borrowing set out in Note 31.

15. PREPAID LAND LEASE PAYMENTS

	2013 RMB'000	2012 RMB'000
Analysed for reporting purposes as:		
Current assets	**2,410**	2,410
Non-current assets	**90,599**	92,800
	93,009	95,210

The prepaid land lease payments consist of cost of land use rights in respect of land located in the PRC held under medium term lease.

16. AVAILABLE-FOR-SALE INVESTMENT

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

16. AVAILABLE-FOR-SALE INVESTMENT (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December 2013, the investment of RMB17,147,000 is measured at cost less impairment, because there is no quoted market price in an active market and the range of reasonable fair value estimates is so significant. The directors of the Company are of the opinion that the fair value cannot be measured reliably.

* for identification only

16. AVAILABLE-FOR-SALE INVESTMENT (Continued)

The shareholder's loan to Yongheng is unsecured, interest-free and has no fixed repayment terms. At 31 December 2013, in the opinion of the directors, the shareholder's loan is not expected to be recovered within one year from the end of the reporting period. The balance is, therefore, classified as non-current.

17. ACCOUNTS AND OTHER RECEIVABLES

	2013	2012
	RMB'000	RMB'000
Non-current:		
Accounts receivable *(notes (i) and (ii))*	**117,971**	109,463
Value-added tax recoverable *(note (iv))*	**9,953**	—
Shareholder's loan to Yongheng *(Note 16)*	**18,578**	—
Consideration receivable *(Note 16)*	**72,968**	—
	219,470	109,463
Current:		
Accounts receivable *(note (i) and (ii))*	**862,888**	860,041
Bills receivable *(note (iii))*	**4,150**	16,650
Government financial incentive receivables *(Note 7)*	**16,041**	17,105
Deposits and prepayments	**22,307**	13,131
Value-added tax recoverable *(note (iv))*	**5,450**	—
Consideration receivable *(Note 16)*	**100,000**	—
Others	**5,872**	3,940
	1,016,708	910,867
	1,236,178	1,020,330

17. ACCOUNTS AND OTHER RECEIVABLES (Continued)

notes:

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

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

The aged analysis of the Group's accounts receivable, prepared based on the dates of certification of work done, which approximate the respective revenue recognition dates, including those that are billed and unbilled, (net of allowance on accounts receivable) at the end of each reporting period is as follows:

Aged analysis of the Group's accounts receivable

	2013 **RMB'000**	2012 RMB'000
0–30 days	**193,977**	178,617
31–60 days	**60,129**	74,380
61–90 days	**63,472**	64,669
91–180 days	**221,265**	109,332
Over 180 days	**442,016**	542,506
	980,859	969,504

Included in the accounts receivable balance is RMB57,331,000 (2012: RMB36,055,000) for which invoices have been raised as of 31 December 2013.

17. ACCOUNTS AND OTHER RECEIVABLES (Continued)

notes: (Continued)

(i) (Continued)

The amount of accounts receivables which were past due based on the dates of the progress certificates, irrespective of the invoice dates and whether or not invoices have been raised, as at the end of the reporting period but for which the Group has not provided for impairment loss is analysed as follows:

Aging of accounts receivable which were past due but not impaired

	2013 RMB'000	2012 RMB'000
0–30 days	1,614	69,812
31–60 days	60,129	61,185
61–90 days	63,472	20,832
91–180 days	185,239	36,071
Over 180 days	310,983	325,254
	621,437	513,154

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

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

No allowance for doubtful debts was recognised by the Group during the year ended 31 December 2012 and 2013.

(ii) Non-current accounts receivable represents amounts due from several customers for contract works, for which the contracts include clauses for extended payment terms beyond one year. Interest is charged in respect of such non-current accounts receivable balance at a rate of 10% per annum. During the year, interest income of about RMB11,996,000 (2012: RMB16,781,000) was recognised.

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

Aged analysis of the Group's bills receivable

	2013 RMB'000	2012 RMB'000
0–30 days	400	5,000
31–60 days	750	800
61–90 days	3,000	5,200
91–180 days	—	5,650
	4,150	16,650

17. ACCOUNTS AND OTHER RECEIVABLES (Continued)

notes: (Continued)

(iv) As at 31 December 2013, an amount of RMB15,403,000 (31 December 2012: nil) value-added tax paid by the Group in connection with its purchase of plant and machinery and dredgers in relation to Other Marine Business could be used to set-off against future value-added tax payable in relation to revenue generated from Other Marine Business. The Group has estimated that the value-added tax payable for the twelve months ending 31 December 2014 is approximately RMB5,450,000. Accordingly, the remaining value-added tax recoverable of RMB9,953,000 is not expected to be recovered within one year from the end of the reporting period and is classified as non-current.

18. BANK BALANCES AND CASH AND 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. At the end of the reporting period, the bank balances carry interest at market rates which range from 0.01% to 2.86% (2012: 0.01% to 3.08%) per annum.

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group in respect of bank borrowings and credit facilities and are therefore classified as current assets. At the end of the reporting period, the deposits carry fixed interest rate of 2.8% (2012: 2.80% to 3.20%) per annum. The pledged bank deposits will be released upon the settlement of corresponding payables.

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

	2013	2012
	RMB'000	RMB'000
United States Dollar ("US$")	**18,508**	16
Hong Kong Dollar ("HK$")	**1,273**	569

19. ACCOUNTS AND OTHER PAYABLES

	2013	2012
	RMB'000	RMB'000
Accounts payables		
— Subcontracting charge	**162,505**	145,891
— Fuel cost	**31,227**	30,589
— Repair and maintenance	**14,338**	16,862
— Others	**1,350**	21,150
	209,420	214,492
Bills payable	**38,501**	84,000
Other payables		
— Payable for property, plant and equipment	**170,540**	—
— Accrual other taxes	**66,502**	52,038
— Accrual staff salaries and welfare	**15,389**	19,379
— Receipts in advance	**6,431**	3,493
— Interest on convertible bonds due within one year	**5,759**	—
— Others	**12,096**	9,523
	276,717	84,433
	524,638	382,925

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

	2013	2012
	RMB'000	RMB'000
0–30 days	**122,391**	158,787
31–60 days	**10,190**	13,930
61–90 days	**16,213**	9,056
91–180 days	**11,082**	4,806
Over 180 days	**49,544**	27,913
	209,420	214,492

20. AMOUNTS DUE TO DIRECTORS

As at 31 December 2013, the balance represented advance from and emolument payable to certain directors of approximately RMB1,635,000 (2012: RMB1,050,000) and an amount due to Mr. Liu of approximately RMB157,000 (2012: RMB6,682,000). All amounts are unsecured, interest-free, repayable on demand and non-trade in nature.

21. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF A SUBSIDIARY

Included in the balance was an amount of RMB16,059,000 (2012: RMB17,711,000) which is the remaining consideration payable to Vendor Shareholders (as defined in Note 27(b)). All balance is non-interest bearing except for an amount of approximately RMB1,367,000 as at 31 December 2012 (2013: nil) which is interest bearing at 7.50%. On 31 December 2013, certain non-controlling interests agreed not to demand repayment of RMB90,708,000 of the amounts due to them before April 2015 (2012: RMB76,002,000 due to them before September 2014). All amounts are unsecured and non-trade in nature.

22. BANK AND OTHER BORROWINGS

	2013 RMB'000	2012 RMB'000
Secured bank borrowings		
— Repayable within one year	**631,349**	434,000
— Repayable in more than one year but not exceeding two years	**19,579**	—
— Repayable in more than two years but not exceeding five years	**41,138**	—
	692,066	434,000
Less: amount due for settlement within one year	**(631,349)**	(434,000)
	60,717	—
Unsecured other borrowings		
— Repayable within one year	**6,244**	33,236
— Repayable in more than one year but not exceeding two years	**21,003**	—
	27,247	33,236

Except for two bank borrowings guaranteed by a bank in the PRC of approximately RMB98,038,000 (2012: nil) and RMB112,632,000 (2012: nil) carrying contractual fixed interest rates of 1.50% and 2.20%, respectively, and the bank borrowing arising from the Agreement (as defined below), the Group's other bank borrowings carried fixed interest rate for the years ended 31 December 2013 and 2012 with reference to the benchmark borrowing rate of The People's Bank of China ("Benchmark Rate") or Benchmark Rate at loan agreement dates plus certain basis point. At the end of the reporting period, the effective interest rates of the bank borrowings ranged from 3.62% to 7.80% (2012: 6.00% to 8.53%).

On 31 July 2013, the Group had entered into an agreement (the "Agreement") with a PRC financial institution ("Financial Institution") whereby the Group drew down RMB85,000,000 from the Financial Institution (included in bank borrowings) which is to be repayable by 16 quarterly installments plus interest at 6.4% per annum, subject to adjustment.

22. BANK AND OTHER BORROWINGS (Continued)

As collaterals for the above financing,

(i) The Group transferred the ownership title of one of its dredgers ("Dredger") to the Financial Institution;
(ii) The Group placed a security deposit of RMB15 million and pledged certain of its accounts receivables with the Financial Institution;
(iii) Mr. Liu provided a personal guarantee for the due performance of the Group's obligations under the Agreement; and
(iv) The Company entered into a guarantee in favour of the Financial Institution for the due performance of the Group's obligations under the Agreement.

Upon discharging all the Group's obligations under the Agreement, the Financial Institution will return the ownership title of the Dredger to the Group for a nominal amount of RMB1. Despite the Agreement involves a legal form of a lease, the Group accounted for the Agreement as collateralised borrowing in accordance with the actual substance of the Agreement.

At 31 December 2013 and 2012, the Group's bank borrowings were supported by the corporate guarantees given by Xiangyu PRC (defined in Note 38) and the Company. The Group's bank borrowings to the extent of RMB525,500,000 and RMB30,620,000 (2012: RMB427,000,000 and RMB7,000,000) were secured by certain assets of the Group (see Note 31), a property owned by a company in which Mr. Liu has beneficial interest and by two properties owned by certain of the Group's non-controlling shareholders of a subsidiary of the Company and personal guarantees provided by Mr. Liu and Ms. Zhou respectively (see Note 33(ii)).

Included in the Group's other borrowings, approximately RMB16,250,000 (2012: RMB10,006,000) carried fixed interest rates ranging from 6.25% to 7.50% per annum (2012: 6.32% to 7.50%). Other than that, the remaining other borrowings of the Group are interest-free. All of the Group's other borrowings are unsecured and repayable on demand. On 31 December 2013, certain counterparties agreed not to demand repayment before 31 December 2014. Accordingly, RMB21,003,000 due to these parties are classified as non-current.

23. SHARE CAPITAL/PAID-IN CAPITAL

	Number of shares	**Amount**	**RMB equivalent amount**
	'000	HK$'000	RMB'000
Ordinary Shares of HK$0.10 each			
Authorised			
Balance at 1 January 2012, 31 December 2012 and 2013	10,000,000	1,000,000	N/A
Issued and fully paid			
Balance at 1 January 2012, 31 December 2012 and 2013	800,000	80,000	67,200

24. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities arising on fair value adjustments of property, plant and equipment on acquisitions of subsidiaries and movements thereon during the current and prior year:

	RMB'000
At 1 January 2012	—
On acquisition of a subsidiary *(Note 27(b))*	23,676
Charge to profit or loss *(Note 9)*	(1,820)
At 31 December 2012	21,856
Charge to profit or loss *(Note 9)*	(1,793)
At 31 December 2013	20,063

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB237,377,000 (2012: RMB248,027,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

25. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES

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

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

25. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES (Continued)

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

	Debt component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
As at 8 November 2013 (date of issue)	173,713	18,257	191,970
Amortisation using effective interest method *(Note 8)*	4,102	—	4,102
Changes in fair value	—	19,511	19,511
At 31 December 2013	177,815	37,768	215,583
Less: interest payable within one year included in other payable	(5,759)	—	
	172,056	37,768	

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

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

26. SHARE-BASED PAYMENT TRANSACTIONS

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

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

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the directors and commences after a certain vesting period and ends in any event not later than ten years from the date of grant of the relevant share option, subject to the provisions for early termination thereof. Options may be granted upon payment of HK$1 as consideration for each grant. 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 offer of 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 offer of grant; and (iii) nominal value of the Shares.

The movements of the share options granted under the Share Option Scheme during the year are as follows:

				Number of underlying Shares in respect of the share options					
Category	**Date of grant**	**Exercise price per Share** HK$	**Exercisable period**	**At 1 January 2012**	**Granted during the year**	**Cancelled during the year** *(note iv)*	**At 1 January 2013**	**Granted during the year**	**At 31 December 2013**
Employees *(note i)*	30 March 2012	2.192	19 April 2012 to 30 March 2014	—	42,000,000	—	42,000,000	—	42,000,000
Others *(note ii)*	30 March 2012	2.192	19 April 2013 to 30 March 2014	—	12,000,000	—	12,000,000	—	12,000,000
Others *(note ii)*	29 May 2012	1.920	18 June 2013 to 29 May 2014	—	26,000,000	(14,000,000)	12,000,000	—	12,000,000
Others *(note iii)*	2 September 2013	2.176	*(note iii)*	—	—	—	—	7,600,000	7,600,000
				—	80,000,000	(14,000,000)	66,000,000	7,600,000	73,600,000
Exercisable at the end of the year							42,000,000		66,000,000
Weighted average exercise price per share				—	HK$2.10	HK$1.92	HK$2.14	HK$2.176	HK$2.146

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

notes:

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

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

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

(iv) During the year ended 31 December 2012, share options granted to subscribe for up to 14,000,000 Shares of the Company granted were cancelled by the respective grantees.

The aggregate fair values of the share options granted during the year ended 31 December 2013 and 2012 determined at the dates of grant using the Binomial Option Pricing model was HK$2,466,000 (RMB1,948,000) and HK$18,729,000 (RMB15,171,000), respectively. During the year ended 31 December 2013, share-based expense of RMB4,994,000 (2012: RMB9,156,000) was recognised in consolidated statement of profit and loss and other comprehensive income. The following data and assumptions were used to calculate the fair value of the options at grant date:

	Granted on 2 September 2013 (immediate vesting)	**Granted on 30 March 2012 (immediate vesting)**	**Granted on 30 March 2012 (with 1 year vesting period)**	**Granted on 29 May 2012 (with 1 year vesting period)**
Share price immediately before dates of offer (dates of grant)	HK$2.13	HK$2.04	HK$2.04	HK$1.85
Exercise price	HK$2.18	HK$2.19	HK$2.19	HK$1.92
Expected volatility	45.296%	39.420%	39.420%	39.282%
Expected option period	1.9562 years	1.9452 years	1.9452 years	1.9781 years
Risk-free rate	0.3538%	0.223%	0.223%	0.239%
Expected dividend yield	0.00%	2.00%	2.00%	2.00%
Estimated fair value of each option	0.4989	0.1782	0.1794	0.3497

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

27. ACQUISITION OF SUBSIDIARIES

(a) On 20 December 2013, the Group entered into a sales and purchases agreement with two individuals independent to the Group, pursuant to which the Group agreed to acquire 100% equity interest in Jiangsu Lugang Construction Project Co., Ltd* 江蘇路港建設工程有限公司 ("Jiangsu Lugang"), a limited liability company incorporated in the PRC, at a cash consideration of RMB85,800,000. Jiangsu Lugang is principally engaged in provision of dredging services. The acquisition was completed on 24 December 2013 and has been accounted for using the acquisition method. Details of the acquisition are set out below:

	RMB'000
Consideration	
Cash	85,800
Fair value of net assets acquired	
Property, plant and equipment	295,602
Intangible assets	2,560
Accounts and other receivables	592
Bank balances and cash	374
Accounts and other payables	(216,083)
Net assets acquired	83,045
Goodwill arising on acquisition	2,755
Net cash outflow arising on acquisition of a subsidiary	
Cash consideration paid	85,800
Less: Bank balances and cash	(374)
	85,426

Included in the loss for the year is RMB11,000 attributable to the additional business generated by Jiangsu Lugang. Jiangsu Lugang contributed no revenue for the year since the date of acquisition.

Had the acquisition been completed on 1 January 2013, total group revenue for the year would have been RMB995 million, and profit for the year would have been RMB179 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

* for identification only

27. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

In determining the 'pro-forma' revenue and profit of the Group had Jiangsu Lugang been acquired at the beginning of the current year, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the preacquisition financial statements.

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

	notes	RMB'000
Consideration transferred	(i)	
Cash consideration paid upon completion		9,789
Consideration payable to Vendor Shareholders (defined below)		17,711
Subscription consideration (to be paid by the Group)		80,224
		107,724

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

	notes	RMB'000
Net assets acquired		
Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:		
Property, plant and equipment *(Note 14)*		327,226
Accounts and other receivables	(ii)	28,835
Pledged bank deposits		3,000
Bank overdraft		(7,303)
Tax recoverable		672
Accounts and other payables		(40,656)
Deferred tax liabilities *(Note 24)*		(23,676)
Amounts due to non-controlling interests		(57,420)
Amount due to the PRC Operational Entity (as prepaid consideration)		(10,000)
Other borrowings		(32,078)
Bank borrowings		(57,995)
		130,605
Subscription consideration (to be paid by the Group)		80,224
		210,829
Less: Non-controlling interests	(iii)	(103,306)
Net assets acquired		107,523
Goodwill arising on Acquisition	(iv)	201
Net cash outflow arising on Acquisition:		
Cash consideration paid		9,789
Add: Bank overdraft		7,303
		17,092

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

notes:

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

At 31 December 2013, the Existing Equity Consideration was partially settled to the extent of RMB11,441,000 (2012: RMB9,789,000) and the remaining consideration payable to Vendor Shareholders of RMB16,059,000 (2012: RMB17,711,000) was included in amounts due to non-controlling interests of a subsidiary as at 31 December 2013.

No interest is charged on the Subscription Consideration. An amount of RMB56,402,000 of the Subscription Consideration was settled prior to 31 December 2012. The amount that was due within one year from 31 December 2012 expected to be settled in 2013 was not discounted due to insignificant impact. During the year ended 31 December 2013, RMB9,150,000 of the outstanding balance was settled. The balance of the Subscription Consideration has been accounted for as deferred consideration and discounted to its net present value of RMB17,983,000 (2012: RMB23,203,000) using a discount rate of 12% per annum in accordance with the agreed timing of the cash flows as set out in the agreement.

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

(iii) The non-controlling interests were initially measured at the non-controlling interests' proportionate share of the fair value of identifiable net assets acquired on the date of acquisition to the extent that the subscription consideration was actually paid.

As at 31 December 2012, RMB30,676,000 out of the RMB103,306,000 non-controlling interests is charged to other reserves, based on the unsettled Subscription Consideration of RMB23,822,000 at 31 December 2012.

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

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

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

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

notes: (Continued)

(v) (Continued)

In the opinion of the directors, after considering the actual results of Jiangsu Jiaolong as at 31 December 2013 and based on a review of the profit projection of Jiangsu Jiaolong, the directors have concluded that the fair value of the Profit Shortfall is considered as insignificant at the date of the Acquisition and as at 31 December 2012 and 2013 because the chance that the Vendor Shareholders will need to compensate the Group due to actual profit being less than the Guaranteed Profit is very low.

(vi) Included in the profit after taxation for the year ended 31 December 2012 is profit of RMB33,103,000 attributable to the additional business generated by Jiangsu Jiaolong. Revenue for the year ended 31 December 2012 includes RMB134,318,000 generated from Jiangsu Jiaolong. Had the Acquisition been completed on 1 January 2012, total group revenue for the year ended 31 December 2012 would have been RMB1,008,253,000 and profit for the same period would have been RMB233,158,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

28. INTANGIBLE ASSETS

	RMB'000
At 1 January 2012 and 1 January 2013	—
Acquisition of a subsidiary *(Note 27(a))*	2,560
At 31 December 2013	2,560

Backlog contract represents the contracts signed between a newly acquired subsidiary and customers with gross contractual amount of approximately RMB225,000,000 in relation to dredging projects to be carried out by the subsidiary for the customers. The backlog contracts are amortised over the terms of respective contracts, ranging from one to three years.

29. OPERATING LEASES

The Group as lessee

(i) Minimum lease payments paid

	2013 RMB'000	2012 RMB'000
Minimum lease payments paid under operating leases during the year:		
— chartered dredgers	**1,320**	3,515
— office premises	**2,080**	1,169
— transportation vessels	**420**	340
	3,820	5,024

(ii) Minimum lease payment commitments

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

(a) Chartered dredgers

	2013 RMB'000	2012 RMB'000
Within one year	**1,320**	1,320
In the second to fifth years, inclusive	**—**	1,320
	1,320	2,640

The leases for chartered dredgers are generally negotiated for a term of three years with fixed rental.

29. OPERATING LEASES (Continued)

The Group as lessee (Continued)

(ii) Minimum lease payment commitments (Continued)

(b) Office premises

	2013	2012
	RMB'000	RMB'000
Within one year	**1,827**	1,231
In the second to fifth years, inclusive	**463**	1,128
Over five years	**61**	122
	2,351	2,481

The leases for office premises are generally negotiated for a term between one to ten years.

The Group as lessor

Rental income from chartered vessels earned during the year was RMB12,845,000 (2012: RMB15,228,000). The chartered vessels are expected to generate annualised rental yields of 73% (2012: 33%). The chartered vessels have committed tenants for the next one to two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2013	2012
	RMB'000	RMB'000
Within one year	**1,512**	7,892
In the second to fifth years, inclusive	**—**	1,512
	1,512	9,404

30. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital commitments contracted but not provided for relating to the following:		
— Acquisition of property, plant and equipment	**88,186**	—
— Investment in a sino-foreign joint venture in the PRC	**24,000**	39,000

Pursuant to the Company's announcement dated 21 October 2012, the Group has entered into a legally binding framework agreement with a PRC company ("PRC Company"). Pursuant to the agreement, the Group and the PRC Company agreed to take steps to jointly incorporate a new enterprise in Hunan Province, the PRC, for securing the projects of environmental management and construction of infrastructure to be carried out in the Qingshui Lake area, which is expected to last for about five years.

In February 2013, a sino-foreign joint venture was incorporated in Hunan Province and the Group would contribute 80% of the registered capital of the sino-foreign joint venture. In January 2014, pursuant to a revised Articles of Association of the sino-foreign joint venture, the Group's contribution is reduced to 50% of the registered capital. No capital was paid up as at 31 December 2013 and at the date these consolidated financial statements are approved by the directors. Details are set out in the Company's announcement dated 19 March 2014.

31. PLEDGE OF ASSETS

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

	2013 RMB'000	2012 RMB'000
Dredgers included in property, plant and equipment	**876,275**	758,579
Prepaid land lease payments	**93,009**	95,210
Accounts receivable *(note)*	**260,932**	—
Pledged bank deposits	**53,521**	76,017
	1,283,737	929,806

note: Accounts receivable relate to certain dredging projects which were pledged to secure the Group's bank borrowings. The banks could exercise their rights over any outstanding accounts receivable relating to the relevant dredging projects in the event of the Group's breach of the terms of bank borrowings. As at 31 December 2013, outstanding accounts receivable relating to these projects amounting to RMB260,932,000 (2012: nil) and the related bank borrowings amounted to RMB90,296,000 (2012: nil).

In addition, as at 31 December 2013, the Group's bank borrowing to the extent of RMB80,296,000 (2012: nil) was secured by one of the Group's dredgers with a carrying amount of RMB269,630,000 (2012: nil) being held as a collateral. Details of such bank borrowings are set out in Note 22.

31. PLEDGE OF ASSETS (Continued)

Saved as disclosed above, the Group also has bills receivable as at 31 December 2012 that were endorsed to suppliers on a full recourse basis. Details are set out in Note 36.

32. 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 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 according to the state rules.

33. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group paid rentals of RMB40,000 (2012: RMB91,000) to certain companies controlled by Mr. Liu in respect of office premises.

In 2012, Mr. Liu provided an advance of RMB7,000,000 in respect of the Group's acquisition of prepaid land lease payments. In addition, the Group received other advances from, and made repayments to, Mr. Liu during the year ended 31 December 2013 and 2012. As at 31 December 2013, the amount due to Mr. Liu was RMB157,000 (2012: RMB6,682,000).

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

As at 31 December 2013 and 31 December 2012, other than pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

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

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

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

(iii) Related party balances

Details of the balances due to directors are set out in Note 20 to the consolidated financial statements.

(iv) 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 to the consolidated financial statements.

34. 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 shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of amounts due to directors, amounts due to non-controlling interests of a subsidiary, bank and other borrowings and convertible bonds as disclosed in Notes 20, 21, 22 and 25 to the consolidated financial statements respectively and equity attributable to shareholders of the Company, comprising paid up capital/share capital and reserves.

The directors 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.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013 **RMB'000**	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,564,837**	1,113,391
Financial liabilities		
Amortised cost	**1,461,244**	854,498

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, pledged bank deposits, bank balances and cash, accounts and other payables, amounts due to directors, amount due to non-controlling interests of a subsidiary, bank and other borrowings, convertible bonds and derivative financial liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market, credit and liquidity risks. The policy on how to mitigate these risks is set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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 arise.

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

	Assets		**Liabilities**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**18,508**	16	**—**	—
HK$	**1,440**	569	**420,494**	—

The following table details the Group's sensitivity to a 5% (2012: 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% (2012: 5%) 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 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.

35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

	Increase (decrease) in post-tax profit	
	2013	2012
	RMB'000	RMB'000
US$	**694**	1
HK$	**(15,715)**	21

In the opinion of the directors, the sensitivity analysis above is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank balances for the year ended 31 December 2013 and 2012. In addition, the Group was also exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, amounts due to non-controlling interests of a subsidiary, certain accounts receivables and pledged bank deposits as at 31 December 2012 and 2013.

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.

For the year ended 31 December 2013 and 2012, the Group was not exposed to cash flow interest rate risk on financial liabilities as all bank and other borrowings, amounts due to non-controlling interests of a subsidiary, and certain account receivables and pledged bank deposits are fixed-rates instruments.

In the opinion of the directors, the reasonably possible change in interest rates for bank balances is insignificant. No sensitivity analysis is presented.

(iii) Other price risk

For the year ended 31 December 2013, the Group is required to estimate the fair value of the derivative financial liabilities of the convertible bonds with changes in fair value to be recognised in the profit or loss. The fair value will be affected either positively or negatively, amongst others, by the changes in the share price of the Company. The fair value of the derivative financial liabilities as at 31 December 2013 will be increased by approximately RMB60 million/decreased by approximately RMB21 million if the share price be 30% higher/lower and all other input variables of the valuation model were held constant.

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

35. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

At the end of the reporting date, 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 good reputation.

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

	2013 %	2012 %
Amount due from the largest customer as a percentage to total accounts receivables	18	34
Amount due from the five largest customers as a percentage to total accounts receivables	74	90

Because of its business nature, the Group normally transacts with large PRC state-owned companies and large private enterprises 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.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash reserves to meet its liquidity requirements in the short and longer term. Having considered the factors and circumstances set out in Note 2 to the consolidated financial statements, the directors are satisfied that the Group will have sufficient liquidity to meet its cash flows requirements for the next twelve months.

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 date.

35. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand/ less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013							
Non-derivative financial liabilities							
Accounts payables	—	209,420	—	—	—	209,420	209,420
Bills payable	—	5,571	32,930	—	—	38,501	38,501
Other payables	—	180,975	—	—	—	180,975	180,975
Amounts due to directors	—	1,792	—	—	—	1,792	1,792
Amounts due to non-controlling interests of a subsidiary							
— non-interest bearing	—	4,952	—	90,708	—	95,660	95,660
Bank borrowings							
— interests bearing at fixed rates	5.43	213,357	434,326	24,254	42,446	714,383	692,066
Other borrowings							
— non-interest bearing	—	—	—	10,997	—	10,997	10,997
— interest bearing at fixed rates	6.28	—	6,539	10,632	—	17,171	16,250
Convertible bonds	16.914	—	5,759	5,759	262,600	274,118	177,815
		616,067	479,554	142,350	305,046	1,543,017	1,423,476
Derivative financial liability							
Derivative component of convertible bonds	—	37,768	—	—	—	37,768	37,768
At 31 December 2012							
Non-derivative financial liabilities							
Accounts payables	—	214,492	—	—	—	214,492	214,492
Bills payable	—	72,000	12,000	—	—	84,000	84,000
Other payables	—	5,036	—	—	—	5,036	5,036
Amounts due to directors	—	7,732	—	—	—	7,732	7,732
Amounts due to non-controlling interests of a subsidiary							
— non-interest bearing	—	74,635	—	—	—	74,635	74,635
— interest bearing at fixed rates	7.50	1,470	—	—	—	1,470	1,367
Bank borrowings							
— interests bearing at fixed rates	7.05	5,043	447,611	—	—	452,654	434,000
Other borrowings							
— non-interest bearing	—	23,230	—	—	—	23,230	23,230
— interest bearing at fixed rates	6.85	10,692	—	—	—	10,692	10,006
		414,330	459,611	—	—	873,941	854,498

35. FINANCIAL INSTRUMENTS (Continued)

(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 costs in the consolidated financial statements approximate their fair values.

The derivative financial liabilities are measured at fair value at the end of each reporting period. At 31 December 2013, the fair value of the derivative financial liabilities is RMB37,768,000. The fair value of the derivative financial liabilities (representing the conversion options of the convertible bonds issued by the Group during the year ended 31 December 2013) is determined using Black-Scholes Model with inputs, including: valuation date share price, conversion price, time to maturity, risk-free rate, volatility and dividend yield of the Company.

The significant unobservable input for the valuation is the volatility used to determine the fair value in the Black-Scholes Model. Carrying amount of the derivative financial liabilities would be increased by approximately RMB28 million/decreased by approximately RMB5 million when the volatility increased/decreased by 10%.

The derivative financial liabilities is classified as Level 3 under the fair value hierarchy at 31 December 2013. Reconciliation of Level 3 financial value measurements is as below:

	RMB'000
Opening balance	—
Issue of convertible bonds	18,257
Changes in fair value	19,511
Closing balance	37,768

HK$19,511,000 fair value changes of derivative financial liabilities related to the derivative financial liabilities of HK$29,768,000 held at the end of the current reporting period.

36. TRANSFERS OF FINANCIAL ASSETS

The followings were the Group's bills receivable as at 31 December 2012 that were endorsed to suppliers on a full recourse basis.

	RMB'000
Carrying amount of bills receivable transferred	3,050
Carrying amount of associated liabilities	(3,050)
Net position	—

The Group endorsed bills receivable to suppliers to exchange for goods from these suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to those bills receivable, it continues to recognise the full carrying amount of the bills receivable, and has recognised the associated accounts payables for the goods received from the suppliers. This bills receivable is carried at amortised cost in the Group's consolidated statement of financial position.

37. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2013, other borrowings of the Group in an aggregate amount of RMB12,360,000 were assigned by the creditors to certain non-controlling interests of a subsidiary.

During the year ended 31 December 2013, in lieu of settlement for trade debts of RMB288,293,000, the Group entered into the 1st Agreement, 2nd Agreement and 3rd Agreement, details of which are set out in Note 16.

During the year ended 31 December 2012, deposits of RMB150,000 were transferred to property, plant and equipment. In addition, the Group acquired leasehold land at a consideration of RMB96,415,000 of which an amount of RMB7,000,000 was paid by a director on behalf of the Group.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Country of operation and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest indirectly held by the Company 2013	2012	Principal activities	Form of company
Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.* 江蘇蛟龍打撈航務工程有限公司	PRC 22 July 1977	RMB72,754,776	**51%**	51%	Provision of marine hoisting, installation and other engineering services	Limited liability
Jiangxu Province Lugang Construction Project Co. Ltd.* 江蘇省路港建設工程有限公司	PRC 14 June 2004	RMB51,800,000	**100%**	N/A	Provision of dredging services	Limited liability
Jiangsu Xiangyu Environment Protection Equipment Co. Ltd.* 江蘇翔宇環保設備有限公司	PRC 15 August 2013	US$50,000,000	**100%**	N/A	Manufacturing of dredging machines	Wholly-owned foreign enterprise
Jiangsu Xingyu Port Construction Company Limited* ("PRC Operational Entity") *(note ii)* 江蘇興宇港建有限公司	PRC 13 July 2007	RMB39,315,800	***note ii***	*note ii*	Provision of dredging services	Limited liability

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country of operation and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest indirectly held by the Company 2013	2012	Principal activities	Form of company
Jiangsu Xiangyu Port Constructing Project Administration Company Limited* ("Xiangyu PRC") 江蘇翔宇港建工程管理有限公司 *(note ii)*	PRC 11 June 2010	US$40,000,000	**100%**	100%	Provision of dredging services	Wholly-owned foreign enterprise
Jiangsu Xiangyu Water Management Company Limited* 江蘇翔宇水務有限公司	PRC 3 August 2011	RMB174,782,386	**100%**	100%	Provision of dredging and water management services	Wholly-owned foreign enterprise
Power Wealth Engineering Limited 力富工程有限公司	Hong Kong 3 July 2002	HK$100,000	**100%**	100%	Investment holding and provision of dredging consultation services	Limited liability

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *for identification only*

note:

(i) None of the subsidiaries had any debt securities outstanding at the end of the reporting period, or at any time during the year.

(ii) **Consolidated structured entities**

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

On 19 April 2011, Xiangyu PRC, the PRC Operational Entity and its respective equity participants, being Mr. Liu and Ms. Zhou entered into a series of agreements (the "Contractual Arrangements"). The PRC Operational Entity and its subsidiaries are engaged in the provision of dredging services of the Group.

Key provisions of the Contractual Arrangements are as follows:

Option Agreement

Xiangyu PRC, 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 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 Xiangyu PRC as capital surplus. Subject to the compliance with the PRC laws, Xiangyu PRC may exercise the option at any time, in respect of all or part of the equity interest of PRC Operational Entity and in any manner at its sole discretion.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

note: (Continued)

(ii) (Continued)

Pursuant to the Option Agreement, each of 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 PRC Operational Entity shall not alter its constitutional documents or its registered capital;

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

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

(d) that 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 PRC Operational Entity, except the security created under the Equity Pledge Agreement (as defined in (ii) below);

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

(f) that PRC Operational Entity shall not distribute any dividend (including any undistributed attributable profit payable to the entity's shareholders prior to the Option Agreement becoming effective) to its shareholders and that Mr. Liu and Ms. Zhou undertake that such undistributed profit shall be retained in 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 PRC Operational Entity;

(g) that 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 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 PRC Operational Entity are transferred to Xiangyu PRC and/or its nominee(s).

Proxy Agreement

Xiangyu PRC, 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 PRC Operational Entity under the articles of association of PRC Operational Entity and the applicable PRC laws. Such shareholders' rights include but not limited to (i) calling and attending the shareholders' meetings of 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 PRC Operational Entity.

Before Xiangyu PRC acquires the entire equity interests in PRC Operational Entity contemplated under the Option Agreement, Xiangyu PRC can exercise the voting rights of shareholders of PRC Operational Entity.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

note: (Continued)

(ii) (Continued)

Proxy Agreement (Continued)

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 PRC Operational Entity.

Composite Services Agreement

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

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

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

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

Equity Pledge Agreement

Xiangyu PRC, 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 PRC Operational Entity to Xiangyu PRC for guaranteeing the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement. Mr. Liu and Ms. Zhou are responsible to record the pledge of equity into the shareholders' register on the effective date of the Equity Pledge Agreement. PRC Operational Entity, Mr. Liu and Ms. Zhou are also responsible to register the pledge of equity in the State Administration for Industry and Commerce 10 days after the effective date of the Equity Pledge Agreement.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

note: (Continued)

(ii) (Continued)

Equity Pledge Agreement (Continued)

Pursuant to the Equity Pledge Agreement, without the prior written consent of Xiangyu PRC, 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 PRC Operational Entity to transfer or dispose of its assets or pledge or transfer their respective equity interests in 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 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.

Vessel Pledge Agreements

PRC Operational Entity and Xiangyu PRC have entered into three vessel pledge agreements ("Vessel Pledge Agreements") dated 19 April 2011, pursuant to which 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 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, PRC Operational Entity shall not pledge or dispose of its interests in the pledged vessels or any part thereof. Xiangyu PRC is entitled to exercise its rights to sell the pledged vessels on occurrence of certain events of default, including but not limited to the non-payment of the secured indebtedness or non-performance of the Composite Services Agreement.

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

The Group has a contractual commitment to provide financial assistance to the PRC Operational Entity. Due to the strategic importance of the PRC Operational Entity and its subsidiaries to the Group, the directors of the Company intended to provide financing to the PRC Operational Entity and its subsidiaries to support their working capital requirements. As at 31 December 2013, the bank borrowings of the PRC Operational Entity of RMB440,296,000 (2012: RMB380,000,000) are secured by pledge of assets jointly owned by the PRC Operational Entity and the Group, corporate guarantee by the Company and personal guarantees provided by Mr. Liu and Ms. Zhou, the directors of the Company. Utilised secured bank facilities amounted to approximately RMB166,000,000 (2012: RMB241,000,000).

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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

39. SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

As detailed in Note 38, the Group held 51% equity interest in Jiangsu Jiaolong at 31 December 2012 and 2013.

Name of subsidiary	**Place of incorporation and principal place of business**	**Proportion of ownership interests and voting rights held by non-controlling interest**		**Profit allocated to non-controlling interest**		**Accumulated non-controlling interest**	
		31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
				RMB'000	RMB'000	RMB'000	RMB'000
Jiangsu Jiaolong	PRC	49%	49%	16,525	14,897	134,728	87,527

Summarised financial information in respect of Jiangsu Jiaolong which has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations:

	2013	2012
	RMB'000	RMB'000
Current assets	**165,627**	102,908
Non-current assets	**356,384**	388,533
Current liabilities	**(108,957)**	(149,450)
Non-current liabilities	**(131,774)**	(97,857)
Equity attributable to owners of the Company	**146,552**	125,931
Non-controlling interests	**134,728**	118,203

39. SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

	1.1.2013 to 31.12.2013 RMB'000	20.2.2012 to 31.12.2012 RMB'000
Revenue	**168,668**	134,318
Expense	**(131,279)**	(101,215)
Profit and total comprehensive income for the year/period	**37,389**	33,103
Profit and total comprehensive income attributable to the owners of the Company	**20,864**	18,207
Profit and total comprehensive income attributable to the non-controlling interests	**16,525**	14,896
Profit and other comprehensive income for the year/period	**37,389**	33,103
Dividend paid to non-controlling interests	**Nil**	Nil
Net cash (outflow) inflow from operating activities	**(7,657)**	30,404
Net cash (outflow) inflow from investing activities	**(13,201)**	3,853
Net cash inflow (outflow) from financing activities	**19,701**	(23,757)
Net cash (outflow) inflow	**(1,157)**	10,500

40. EVENT AFTER THE REPORTING PERIOD

On 17 January 2014, the placing of unlisted warrants pursuant to a placing agreement under which the Company appointed a placing agent to procure placees to subscribe for up to 35 million Warrants, on a best effort basis, at the Subscription Price of HK$2.70 exercisable within 2 years from the date of issue of the warrants was completed. Assuming exercise in full of the subscription rights attaching to the said warrants, a maximum of 35 million new shares will be allotted and issued and the Company will receive subscription money in the sum of approximately HK$94.5 million (equivalent to approximately RMB74,655,000). The unlisted warrants are denominated in HK$, which is a currency other than the Company's functional currency. The subscription rights in the unlisted warrants do not exchange a fixed number of the Company's own equity instruments for a fixed amount of cash, denominated in HK$. Accordingly, the subscription rights are accounted for as derivative liabilities.

Management is still in progress to determine the fair value of the derivative liabilities on initial recognition at the time when these consolidated financial statements have been authorised for issue.

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