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

2014 Annual Report

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

Definition

"Audit Committee"	the audit committee of the Company
"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 39 to the consolidated 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"	江蘇興宇疏浚環保有限公司 (Jiangsu Xingyu Environment Protection Company Limited*) (formerly known as 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co. Limited*), a wholly-owned subsidiary of the Company
"Jiangsu Xingyu"/ "PRC Operational Entity"	江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holding Group Limited*) (formerly known as 江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*)), a wholly-owned subsidiary of the Company
"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)

Definition (Continued)

"Nomination Committee"	the nomination committee of the Company
"PRC"	the People's Republic of China
"Remuneration Committee"	the remuneration committee of the Company
"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*

Financial Summary

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				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)	(audited)
Revenue	**910,592**	973,615	966,027	1,137,303	374,883
Profit before tax	**162,145**	259,817	294,886	415,730	135,669
Income tax expense	**(53,566)**	(78,535)	(80,494)	(112,566)	(40,639)
Consolidated net profit of the Group for the year and total comprehensive income for the year	**108,579**	181,282	214,392	303,164	95,030
Consolidated net profit of the Group for the year and total comprehensive income for the year attributable to:					
Owners of the company	**92,524**	164,757	199,495	303,164	95,030
Non-controlling interests	**16,055**	16,525	14,897	—	—
	108,579	181,282	214,392	303,164	95,030

ASSETS AND LIABILITIES

	31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)	(audited)
Non-current assets	**2,054,209**	2,026,550	1,577,510	830,877	376,573
Current assets	**1,414,379**	1,384,822	1,019,689	734,028	292,960
Current liabilities	**(1,139,464)**	(1,278,906)	(955,466)	(334,924)	(233,327)
Non-current liabilities	**(394,209)**	(402,315)	(97,858)	—	—
Net assets	**1,934,915**	1,730,151	1,543,875	1,229,981	436,206

Financial Summary (Continued)

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:

	2014 RMB'000	2013 RMB'000
ASSETS		
Unlisted investments in subsidiaries	163,311	167,445
Amounts due from subsidiaries	677,288	576,915
Other receivables	13	13
Bank and cash	159	8,186
	840,771	752,559
LIABILITIES		
Other payables	11,355	9,922
Bank borrowing	3,160	—
Amounts due to directors	1,358	1,792
Convertible bonds	198,461	172,056
Derivative financial liabilities embedded in convertible bonds	14,423	37,768
Derivative financial liabilities in relation to warrants	2,242	—
	230,999	221,538
TOTAL ASSETS LESS TOTAL LIABILITIES	609,772	531,021
CAPITAL AND RESERVES		
Share capital	71,592	67,200
Reserves *(note)*	538,180	463,821
	609,772	531,021

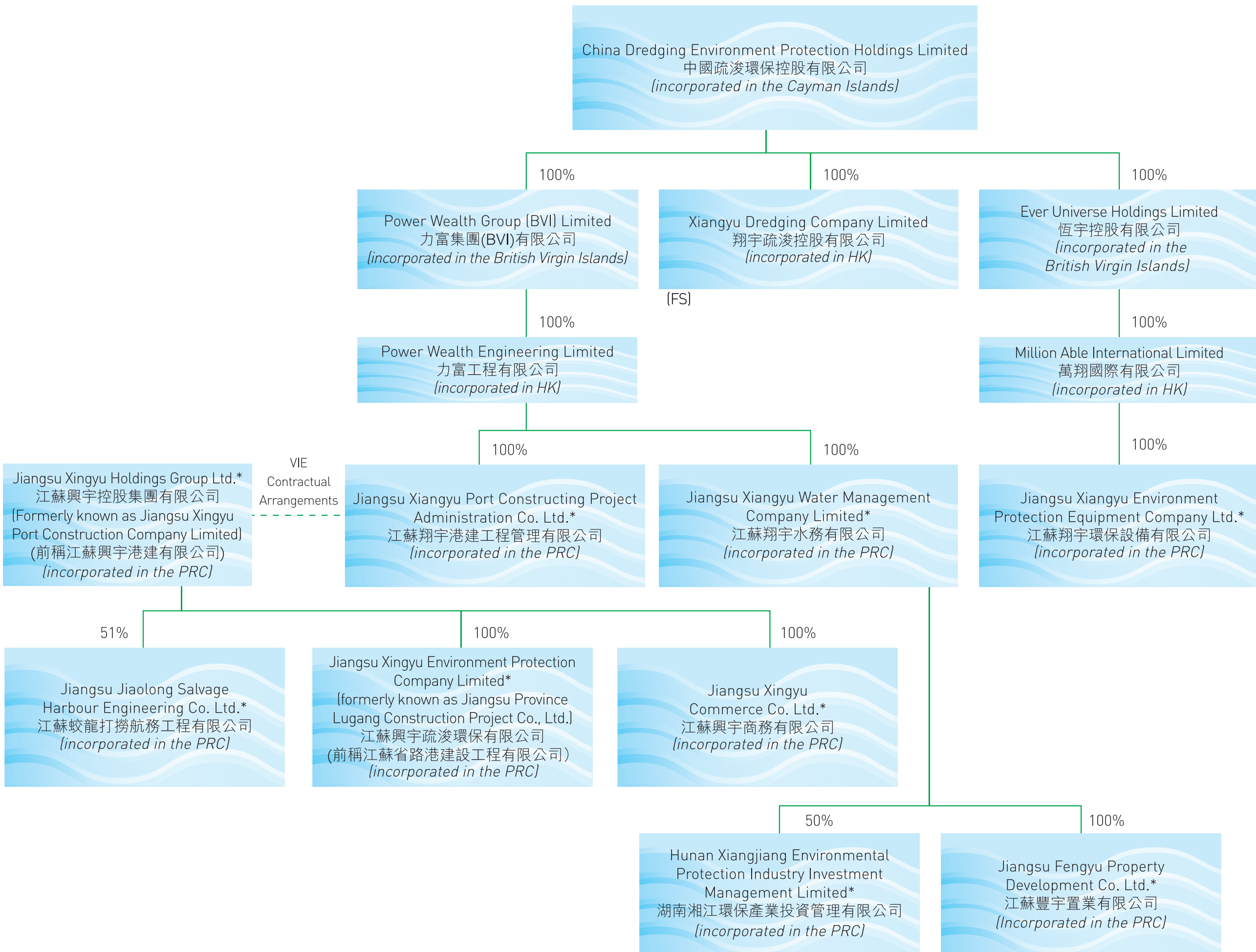
note:

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 2013	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
Loss and total comprehensive expense for the year	—	—	—	(17,434)	(17,434)
Exercise of share option	101,716	(9,923)	—	—	91,793
Lapse of share option	—	(4,227)	—	4,227	—
At 31 December 2014	520,567	—	165,238	(147,625)	538,180

Group Chart

The following sets out the corporate structure of the Group as at 31 December 2014:



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

To Shareholders, customers and employees,

With the government struggling to maintain stable growth in the face of severe downward pressure, 2014 was a tough year to us. In addition to a bumpy ride for the PRC's economy, the commencement of work and the acquisition of pipelines in respect of certain EPD projects were not carried out according to our original expected schedule. We saw the tendering and/or construction process of government projects were being delayed and/or prolonged though the demand for the work remained unchanged. Due to such delay, our target organic growth in 2014 which was expected to be driven by the increase of revenue to be generated from EPD and Water Management Business segment was unable to be realized.

CEO Statement (Continued)

Under the circumstances, 2015 is expected to be in some ways similar to 2014 though a moderate growth is expected. Indeed, Premier Li Keqiang recently announced at the annual National People's Congress that the expected GDP growth rate for China in 2015 would be around 7% which is the lowest over the past decade and it will become the "new normal" for GDP growth target for China in the coming years. However, for both CRD and EPD segments in the PRC, with the firm and urgent policy stimulus support from the Central Government, there is potential in the coming decades. The PRC government has shown their determination and commitment to tackle pollution problems which the public is concerned. The government's commitment is illustrated, among others, in its implementation of grand scale policies such as the Water Pollution Prevention and Control Action Plan (Water Plan), a two trillion yuan plan to clean up polluted water, in 2015 as well as its plan to set up quality standard for the soil of agricultural land. In light of the promotion of the setting up of Asian Infrastructure Investment Bank and the establishment of Maritime Silk Road under the "One Belt One Road" ("OBOR") strategy at full swing as initiated by Chinese President Xi Jinping, the demand for reclamation and related dredging work is expected to go up.

CEO Statement (Continued)

Being a well-established and reputable privately owned dredging services provider providing quality reclamation and environmental protection dredging services of high standard, we trust that, with relevant government policies' support in the industry as mentioned above, the overall outlook for 2015 is positive. Against the backdrop of the prospect of both CRD and EPD segments looking bright, we shall overcome whatever challenges. At this juncture, we are figuring out the schedule and timelines for the commencement of our EPD projects. Furthermore, our accounts receivable have reached a new high. To counter against this, the management will pool in additional resources to actively collect the accounts receivable as well as to broaden our revenue sources. With more and more favorable factors backing us up, we are totally committed to achieve positive progress in 2015.

Liu Kaijin
Joint Chairman, Chief Executive Offer and Executive Director

26 March 2015

Management Discussion & 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 reporting period, the Group recorded a drop of about 6.5% amounting to about RMB63.0 million in total revenue from RMB973.6 million in the financial year of 2013 to about RMB910.6 million. As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the reporting period were about RMB474.4 million and about RMB208.5 million which represented an increase of about 8.5% and a decrease of about 35.9% respectively from the corresponding segments' revenue in the year ended 31 December 2013. The decrease in revenue of EPD and Water Management Business segment in 2014 was mainly due to the completion of a water management project and the slowdown of implementation of certain EPD projects. On the other hand, the CRD business remained steady and the revenue from CRD Business segment increased slightly in 2014 as mentioned above.

During the reporting period, following the slightly growth of CRD works, the revenue of the Group's Dredging Related Construction Business also recorded an increase to about RMB53.3 million as compared to the year ended 31 December 2013. As a result, the Group recorded an increase of about 26.0% as compared with about RMB42.3 million in this segment for the year ended 31 December 2013.

During the reporting period, the Group's Other Marine Business remained steady and the relevant revenue generated from Other Marine Business segment recorded a slight growth of about 3.4% to about RMB174.4 million from about RMB168.7 million for the year ended 31 December 2013.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Operating Cost and Gross Profit

The Group's operating cost increased slightly from about RMB624.2 million for the year ended 31 December 2013 to about RMB648.3 million for the reporting period, representing a small increase of about 3.9%. Coupled with the drop of the revenue as mentioned above, the Group recorded a gross profit of about RMB262.3 million for the reporting period, representing a decrease of about 24.9% as compared with the year ended 31 December 2013 of about RMB349.4 million.

The profit margin of CRD Business decreased from about 40.6% for the year ended 31 December 2013 to about 30.0% for the reporting period. The approximately 10.6% drop of profit margin for the business activities under the CRD Business in the reporting period as compared to the year ended 31 December 2013 was due to the decrease of unit price of the CRD work in the PRC in the reporting period. We view that the unit price of the CRD work in the PRC will maintain steady and the profit margin will be at around 30.0% in the coming 2 to 3 years.

The profit margin of EPD and Water Management Business decreased from about 34.8% for the year ended 31 December 2013 to about 31.8% for the reporting period. The approximately 3.0% drop of profit margin for the business activities under the EPD and Water Management Business for the reporting period as compared to the year ended 31 December 2013 was due to the larger extent of decrease in the revenue generated from EPD work from that generated from Water Management work in the reporting period as compared to the year ended 31 December 2013 and the profit margin of EPD work has been higher than that of the Water Management work.

The profit margin of the Group's Other Marine Business decreased by less than 1.2% to about 28.0% for the reporting period which is considered by the Directors 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 profit margin.

Other Income

Other income increased by about RMB12.9 million to about RMB44.0 million for the reporting period which was mainly due to the increase in bank interest, interest income in respect of non-current account receivables and interest income for the consideration receivables payable by Yancheng City Hongji Construction Installation Engineering Company Limited* (鹽城市鴻基建築安裝工程有限責任公司) as mentioned in note 7 to the consolidated financial statements in this annual report.

Net Gain Due to Fair Value Changes of Derivative Financial Liabilities

There was a non-cash gain of about RMB23.3 million due to the change of fair value of an unsecured convertible bonds which was issued to CITIC Capital China Access Fund Limited in November 2013 assessed as at 31 December 2013 and 31 December 2014 respectively and a non-cash loss of about RMB2.0 million due to the change of fair value of warrants which were issued to several placees in January 2014 assessed as at 17 January 2014 and 31 December 2014 respectively. Therefore, a non-cash net gain of about RMB21.3 million under the category of other gains and losses was derived (2013: non-cash net loss of about RMB19.5million). Regarding the details of the unsecured convertible bonds and the warrants, please refer to the Company's announcements dated 29 October 2013, 8 November 2013, 24 December 2013, 9 January 2014 and 17 January 2014 respectively.

FINANCIAL REVIEW (Continued)

Allowance for doubtful debts

As a further prudent measure in managing the account receivables, a non-cash net loss of aggregate sum of about RMB49.3 million was made for allowance for doubtful debts for the reporting period (2013: Nil).

Marketing and Promotion Expenses

Marketing and promotion expenses decreased by about RMB2.5 million to about RMB10.7 million for the reporting period due to the marketing activities in the year conducted in a more cost effective way.

Administrative Expenses

Administrative expenses for the reporting period amounted to about RMB40.4 million, representing a decrease of about 14.9% from RMB47.5 million for the year ended 31 December 2013 due to the reduction of expenses recognized in respect of the share options granted to employees and consultants under the Group's Share Option Scheme adopted on 24 May 2011 in the reporting period as compared to the financial year ended 31 December 2013.

Income Tax Expense

Due to the decrease in profit before tax, income tax expense for the reporting period amounted to about RMB53.6 million, representing a decrease of about RMB24.9 million compared with the year ended 31 December 2013.

Profit for the Year

As a combination effect of the above, the profit for the year decreased by about 40.1% from about RMB181.3 million for the year ended 31 December 2013 to about RMB108.6 million for the reporting period. Comparing the operating profit for the year ended 31 December 2013 (with the non-cash net loss due to fair value changes of derivative financial liabilities set up in 2013 Annual Report not taken into account) with the operating profit for the reporting period (with the non-cash net gain due to fair value changes of derivative financial liabilities and allowance for doubtful debts as above mentioned not taken into account), the operating profit dropped by about 32.0%.

Profit Guarantee on acquisition

As disclosed in an Announcement of the Company dated 19 September 2011 ("2011 Announcement"), a subsidiary of the Company entered into an agreement ("the Agreement") to acquire 51% equity interest in Targetco (as defined in 2011 Announcement i.e. 江蘇蛟龍打撈航務工程有限公司 Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd*) and such acquisition was completed in February 2012. Under the Agreement, the Original Targetco Equity-holders (as defined in the 2011 Announcement) and Targetco have agreed to give guarantee of after-tax net profit of Targetco in favour of such purchaser for each of the three years ended or ending 31 December 2012, 2013 and 2014. For FY2014, the profit guarantee amounted to RMB45 million. (For further details of the acquisition agreement and the profit guarantees, please refer to 2011 Announcement.)

As mentioned above, the profit margin of the Group's Other Marine Business decreased by less than 1.2%. The after-tax net profit of Targetco for FY2014 amounted to about RMB44.26 million, and accordingly the profit guarantee for FY2014 has not been met with a shortfall of RMB742,662. However, the Group was distributed the FY2014 profit of 江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd*) based on profit guarantee amount, i.e. RMB45 million, pursuant to the profit guarantee provisions under the Agreement as if there was no shortfall.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Earnings Per Share

Earnings per Share decreased by about 47.6 % from RMB0.21 per Share in 2013 to RMB0.11 per Share in the reporting period.

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 currency, 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 2014, total equity of the Group amounted to about RMB1,934.9 million (2013: RMB1,730.2 million). The increase was mainly due to net profit for the reporting period and the increase of capital due to new shares issued pursuant to the exercise of certain options under the Share Option Scheme.

The Group's net current assets as at 31 December 2014 amounted to about RMB274.9 million (2013: RMB105.9 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 31 December 2014 was 1.24 (2013: 1.08).

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 RMB179.1 million as at 31 December 2014, representing a decrease of about RMB186.6 million as compared with about RMB365.7 million as at 31 December 2013.

Pursuant to the exercise of certain options under the Share Option Scheme during the reporting period, an aggregate sum of about HK$121.8 million (equivalent to about RMB96.2 million) being the subscription price for the shares issued was received by the Company.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

As to the sum of about HK$93 million (RMB73,470,000) being the remaining portion of proceeds received from the issuance of convertible bonds on 8 November 2013 as at March 2014 mentioned in the Annual Report 2013 was spent for the following purpose during the year ended 31 December 2014:

(a) capital expenditures: about HK$42 millions (approximately RMB33.1 million)

(b) working capital: about HK$5 million (approximately RMB40.4 million)

The Group's accounts receivables as at 31 December 2014 amounted to about RMB1,272.6 million (2013: RMB980.9 million).

Further, the Group has a sum of about RMB81.8 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 Jiangsu Renhe Asset Valuation Company Limited* (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.

Yancheng City Yongheng Properties Co., Ltd* (鹽城市咏恒置業有限公司) ("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 Yancheng City Hongji Construction Installation Engineering Company Limited* (鹽城市鴻基建築安裝工程有限責任公司) ("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

(iv) payment of any outstanding balance before 31 December 2015.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

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.

The payment terms per points (i), (ii) and (iii) were fully settled as at 31 December 2014.

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 increase of overdue receivables as at 31 December 2014 to about RMB800.7 million (2013: RMB621.4 million) 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. However, to take a further prudent measure in managing the account receivables, the Group has decided to make an allowance for doubtful debts in an aggregate sum of about RMB49.3 million for the reporting period (2013: Nil).

Total liabilities of the Group as at 31 December 2014 were about RMB1,533.7 million (2013: RMB1,681.2 million). The decrease mainly represented decrease in bank loans in the sum of about RMB60.7 million and the net settlement of certain liabilities recorded in the year ended 31 December 2013. The bank loans will mature within one year and all are at fixed interest rates except a facility of HK$10 million (about RMB8 million). 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.

The Group's gearing ratio (calculated by bank borrowings divided by total assets) decreased to a level of 16.5% (2013: 17.9%) or 23.9% (2013: 25.3%) 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 2014, the Group's bank borrowings are secured by pledged bank deposits of about RMB20.8 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

No material acquisition and/or disposals was/were made during the reporting period.

FINANCIAL REVIEW (Continued)

Capital Commitments and Contingent Liabilities

As at 31 December 2014, the Group has capital commitment of RMB3.3 million and RMB24.0 million in relation to acquisition of property, plant and equipment and investment in 湖南湘江環保產業投資管理有限公司 (Hunan Xiangjiang Environmental Asset Investment Management Co Ltd*), a joint venture established with 株洲循環經濟投資發展集團有限公司 (Zhuzhou Cyclic Economy Investment and Development Group Co., Ltd.*) (formerly known as 株洲循環經濟投資發展有限責任公司 (Zhuzhou Cyclic Economy Investment and Development Co., Ltd.*)), a State-owned enterprise established by 株洲清水塘循環經濟工業區委員會 (the Committee of Zhuzhou Qingshuitang Cyclic Economy Industrial Zone*) in the PRC, respectively (2013: RMB88.2 million and RMB24 million).

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

Employees and Remuneration Policy

As at 31 December 2014, the Group had a workforce of 630 (2013: 668). The decrease in number of employees was just an ordinary labor turnover. The total staff cost for the reporting period was about RMB57.2 million (2013: RMB54.0 million). The increase of staff cost is because of the increase of staff salaries. 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

The Company and a placing agent entered into a placing agreement dated 29 December 2014 and a supplemental agreement dated 29 January 2015 pursuant to which the placing agent agreed to procure a placee to subscribe for 171,120,000 placing shares at the placing price of HK$1.38 per placing share. An aggregate sum of about HK$235.3 million (about RMB185.9 million) being the net proceeds of subscription price were received by the Company on 30 January 2015 and 2 February 2015 respectively, details of which were set out in the Company's announcements dated 29 December 2014, 29 January 2015, 30 January 2015 and 2 February 2015 respectively. The proceeds were intended to be used for general working capital purpose.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW

The operating revenue of RMB910,592,000 and the gross profit of RMB262,317,000 in the reporting period decreased as compared with that in the previous year. While our gross profit in the reporting period dropped by 24.9% as compared with that of the year before, the Group's after tax net profit for the reporting period records a decline by about 40.1% (or 32.0% if the non-cash net gain due to fair value changes of derivative financial liabilities and allowance for doubtful debts as above mentioned and the net loss due to fair value changes of derivative financial liabilities for the year ended 31 December 2013 were not taken into account) as compared with that for the year ended 31 December 2013 despite there is a net gain in the sum of about RMB23.3 million in respect of fair value change of derivative financial liabilities embedded in unsecured convertible bonds issued in November 2013. The decrease in revenue was mainly due to completion of a water management project and the slow-down of implementation of certain dredging projects. The Group is discussing the timetable of the progress of construction with the customers of such dredging projects. Apart from the above, the decrease in the Group's after tax net profit was also attributable to (i) the increase in the production costs of the Group as a result of the increase in the level of average salary of employees of the Group; (ii) the increase in fixed expenditure of the Group such as depreciation expense due to an increase in equipments including dredging vessels; (iii) the increase in finance costs and (iv) a non-cash net loss for allowance for doubtful debts in an aggregate sum of RMB49,259,000.

Although the construction work of the reclamation project at Longkou City, Shandong Province has been suspended during the reporting period, the revenue generated from the CRD Business segment slightly increased by 8.5% as compared with that of the year ended 31 December 2013. Due to the reduction of the engagement of sub-contractors in CRD works, the Company was able to maintain a profit margin of 30.0%. The unit price of CRD work in the reporting period decreased. We view that the unit price of the CRD work will maintain steady and the profit margin will be at around 30% in the coming 2 to 3 years. On the other hand, as no new EPD project was carried out during the reporting period, the revenue of EPD and Water Management segment in the reporting period dropped by 35.9% as compared with that of the year before.

Regarding the production of sludge de-watering equipment for the EPD works, our dredging capacity in relation to EPD works has increased up to about 4,000,000 cubic meters per annum in the reporting period. The original schedule of the increase of our Group's annual dredging capacity for EPD works to around 10,000,000 cubic meters by the end of 2015 will be maintained and adhered to.

As regards the accounts receivable, the Board considers that, in view of the financial background of the customers and the historical and subsequent payments, the risk of any part of its accounts receivable becoming not collectible is very low. However, taking a prudent approach in respect of the accounts receivable in the reporting period, the Board determined to make a provision in the sum of RMB49,259,000 in respect of certain accounts receivables being the allowance for doubtful debts.

Management Discussion and Analysis (Continued)

OUTLOOK

It has been a bumpy ride for the PRC's economy in 2014 due to a mix of stiff downward pressure and some policy stimulus. Also we see that there will be no difference for 2015 in which moderate growth is expected. Indeed, during Premier Li Keqiang's address at the annual National People's Congress recently, he announced the expected growth rate for 2015 is around 7% which is the "new normal" for GDP growth target for China in the coming years.

For both CRD Business segment and EPD and Water Management segment, different supportive policies have already been and will be gradually implemented for their respective development in the coming years. Both the media and the general public have become more and more concerned about pollution. To tackle pollution problems has become the top priority of the PRC government. Recently, at the annual National People's Congress, Premier Li Keqiang made environmental protection one of the highlights in his latest Government Work Report, in particular, that the Water Pollution Prevention and Control Action Plan (Water Plan) is to be implemented in 2015. Hence, in the coming years, there will be a potential and huge demand in the EPD work, though we are unable to foretell how much EPD projects will be assigned to our Group, and the schedule and timelines of commencement of those EPD projects. However, with our sludge de-watering equipment with proven technology together with our skills and experience in EPD works, we view the prospects of our EPD and Water Management Business positively and are committed to a year of further progress in 2015. Further, in January 2015, the Ministry of Environmental Protection of the PRC issued 《農用地土壤環境質量標準(徵求意見稿)》(Consultative Paper on the Soil Environmental Quality of Agricultural Land*). We believe that those sludge treatment technology and/or skills which cause the treated soil/sludge to become alkaline or contaminated will be eliminated once the soil quality standard is set out. However, such soil standard requirement is to our advantage as our sludge treatment technology will not cause secondary pollution or change the PH value of the dried sludge. The production of our sludge de-watering equipment for the EPD works will be carried out as scheduled.

The establishment of Maritime Silk Road under the "One Belt One Road" strategy initiated by Chinese President Xi Jinping will certainly provide a lot of opportunity for CRD business such as ports building and other infrastructure cooperation. The proposed path will begin in Fujian province of China, going through Guangdong, Guangxi, and Hainan before heading south to the Malacca Straight. Then from Kuala Lumpur, the maritime Silk Road heads towards Kolkata, then crossing the Indian Ocean to Nairobi. From Nairobi, it goes north around the Horn of Africa and moves through the Red Sea into the Mediterranean, with a stop in Athens before meeting the Silk Road Economic Belt in Venice. Being one of the biggest privately owned dredging contractor in the PRC, our Group may be able to take this opportunity of the establishment of Maritime Silk Road to expand our business in the overseas.

Regarding our accounts receivable, the Board will maintain its usual prudent attitude and take all reasonable and necessary measures in managing the accounts receivable to a healthy level.

Directors' & Senior Management's Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Kaijin (劉開進先生), aged 54, the founder of the Group, was appointed as an executive Director, the chief executive officer and the joint chairman of the Board of the Group. 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 reduced his salary voluntarily from RMB3,000,000 to RMB1,500,000 per annum with effect from 1 January 2013, and raised his salary back to RMB3,000,000 per annum when his service agreement was renewed on the same terms with effect from 1 June 2014. To demonstrate his dedication to the Company and boost shareholders' confidence and value, Mr. Liu entered into a supplemental agreement with the Company to reduce his salary from RMB3,000,000 to RMB1,200,000 per annum voluntarily with effect from 1 September 2014. 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 7th 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七屆委員會委員).

Mr. Liu is the chairman of Jiangsu Xingyu and 江蘇省興宇疏浚環保有限公司 (Jiangsu Province Xingyu Environment Protection Company Limited*) (formerly known as 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co. Limited*) ("Jiangsu Lugang")) and Hunan Xiangjiang Environmental Protection Industry Investment Management Limited* (湖南湘江環保產業投資管理有限公司) and the chairman and general manager of 江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project*) ("Xiangyu PRC"), 江蘇翔宇水務有限公司 (Jiangsu Xiangyu Water Management Company Limited*) ("Xiangyu Water Management") and 江蘇翔宇環保設備有限公司 (Jiangsu Xiangyu Environment Protection Equipment Company Limited*) ("Xiangyu Environment Protection"), Jiangsu Fengyu Property Development Co. Ltd.* (江蘇豐宇置業有限公司) ("Jiangsu Fengyu") and Jiangsu Xingyu Commerce Co. Ltd.* (江蘇興宇商務有限公司) ("Jiangsu Xingyu Commerce"); and has been responsible for overseeing their daily operations and planning their business strategies. Jiangsu Xingyu, Xiangyu PRC, Xiangyu Water Management, Xiangyu Environment Protection and Jiangsu Lugang, Jiangsu Fengyu, Jiangsu Xingyu Commerce and 江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co Ltd*) are subsidiaries of the Company. He is currently a director of each of the subsidiaries of the Company. Save as disclosed above, Mr. Liu has not previously held and is not holding any other position with the Company or its subsidiaries.

Directors' and Senior Management's Profile (Continued)

BOARD OF DIRECTORS (Continued)

Executive Directors (Continued)

Ms. Zhou Shuhua (周淑華女士), aged 51, was appointed as an executive Director of the Company. 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 reduced her salary voluntarily from RMB1,800,000 to RMB900,000 per annum with effect from 1 January 213, and raised her salary back to RMB1,800,000 per annum when her service agreement was renewed on the same terms with effect from 1 June 2014. To demonstrate her dedication to the Company and boost shareholders' confidence and value, Ms. Zhou entered into a supplemental agreement with the Company to reduce her salary from RMB1,800,000 to RMB600,000 per annum voluntarily with effect from 1 September 2014. 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.

Non-executive Director

Mr. Liu Longhua (劉龍華先生), aged 62, was appointed as the Company's non-executive Director and joint chairman on 25 April 2012. He is also the chairman of the Nomination Committee and member of the 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 was the chairman of Beijing Urban Construction Investment Development Co., Ltd. ("Beijing Urban Construction"), a company listed on the Shanghai Stock Exchange and 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 the vice chairman of China Construction Industry Association* (中國建築業協會副會長) and the chairman of the Constructor Committee of China Construction Industry Association* (中國建築業協會建造師分會會長).

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 was the chairman of the Remuneration Committee and a member of each of 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 and resigned as an independent non-executive Director and a member of the Audit Committee and the Nomination Committee, and the chairman of the 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 64, was appointed as the Company's independent non-executive Director on 25 April 2012. He is also the member of the 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). 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 65, 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 Municipal Party Committee of Yancheng and Deputy Secretary-general of the Municipal Party Committee of Yancheng, the Director of Office of the Municipal Party Committee of Yancheng, the Secretary of Xiangshui County Party Committee of the Chinese Communist Party and was the Vice-mayor of the People's Government of Yancheng Municipality.

Mr. Chan Ming Sun Jonathan (陳銘燊先生), aged 42, was appointed as the Company's independent non-executive Director in November 2012. He is a member of the Remuneration Committee and the 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.

Directors' and Senior Management's Profile (Continued)

BOARD OF DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Chan is currently also an independent non-executive director of Hao Tin Resources Group Limited (stock code: 474), Far East Holdings International Limited (stock code: 36) and Shenyang Public Utility Holdings Company Limited (stock code: 747), whose securities are listed on the main board of the Stock Exchange, and of Changhong Jiahua Holdings Limited (stock code: 8016) and L & A International Holdings Limited (stock code: 8195), whose securities are listed on the growth enterprise market of the Stock Exchange. He acted as an independent non-executive director of Beautiful China Holdings Limited (whose securities are listed on the main board of the Stock Exchange, stock: 706) from 25 March 2013 to 28 February 2014 and of Capital VC Limited (stock code: 2324) from 6 August 2004 to 3 April 2012. The securities of the above two companies are listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Leung Kim Hung (梁劍虹先生), aged 54, 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 respectively. 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 43, joined the Group in October 2011 and is the chief financial officer of the Company. 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 (中國註冊税務師協會). Prior to joining the Group, Mr. Xu worked in a listed group in Hong Kong as a financial controller.

Directors' and Senior Management's Profile (Continued)

SENIOR MANAGEMENT (Continued)

Mr. Lee Chih Chiang Michael (李志強先生), aged 65, joined the Group in April 2011 and is the Group's Chief Engineer 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.

Ms. Ding Jiying (丁繼穎女士), aged 39, 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.

Mr. Yang Xianbo (楊先波先生), aged 50, 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 known as the 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.

Directors' and Senior Management's Profile (Continued)

SENIOR MANAGEMENT (Continued)

Mr. Wang Julin (王菊林先生), aged 63, 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 known as the 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 50, 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 known as the 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.

Corporate Governance Report

The Board of the Company is pleased to present the corporate governance report for the year ended 31 December 2014 (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.

Corporate Governance Report (Continued)

BOARD OF DIRECTORS

Board Composition

As at 31 December 2014 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 2014 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. 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 2014 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 2014, 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, 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 this 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, 22 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	17	19
Ms. Zhou Shuhua	14	19
Non-executive Director		
Mr. Liu Longhua	17	19
Independent Non-executive Directors		
Ms. Peng Cuihong (resigned on 17 January 2014)	3	3
Mr. Huan Xuedong	19	19
Mr. Chan Ming Sun Jonathan	19	19
Mr. Xu Hengju (appointed on 17 January 2014)	16	16

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 2014, 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. Peng Cuihong (resigned on 17 January 2014)		
Mr. Huan Xuedong	√	√
Mr. Chan Ming Sun Jonathan	√	√
Mr. Xu Hengju (appointed on 17 January 2014)	√	√

BOARD COMMITTEES

Remuneration Committee

The Company has set up a 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.

Corporate Governance Report (Continued)

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

During the year ended 31 December 2014, the Remuneration Committee conducted review of the remuneration policy and structure of the Directors and senior management which took into account the prevailing market condition and the responsibilities and performance 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 2014 is set out below:

In the band of	**Number of individuals**
Nil to HK$1,000,000	7

As at 31 December 2014, a majority of the Remuneration Committee's members are independent non-executive Directors. During the Review Period, four 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	4	4
Independent Non-executive Directors:		
Ms. Peng Cuihong# (resigned on 17 January 2014)	1	1
Mr. Chan Ming Sun Jonathan	4	4
Mr. Xu Hengju# (appointed on 17 January 2014)	3	3

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 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 2014.

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 2014. During the year, one new Director, namely Mr. Xu Hengju, was appointed. The Measurable Objectives set out above for the purpose of implementation of the Board Diversity Policy are achieved.

During the Review Period, two 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#	2	2
Independent Non-executive Directors:		
Ms. Peng Cuihong (resigned on 17 January 2014)	1	1
Mr. Chan Ming Sun Jonathan	2	2
Mr. Xu Hengju (appointed on 17 January 2014)	1	1

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

BOARD COMMITTEES (Continued)

Audit Committee

The Company has established an 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 2014 and consolidated financial statements for the year ended 31 December 2014, 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 2014, 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, four 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. Peng Cuihong (resigned on 17 January 2014)	1	1
Mr. Huan Xuedong	4	4
Mr. Chan Ming Sun Jonathan#	4	4
Mr. Xu Hengju (appointed on 17 January 2014)	3	3

Mr. Chan Ming Sun, Jonathan has acted as the chairman of the Audit Committee.

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.

NON-COMPETITION UNDERTAKINGS

The then controlling Shareholders (namely Mr. Liu, Wangji Limited ("Wangji"), Mr. Dong Liyong ("Mr. Dong") and Shen Wang Limited ("Shen Wang") have given undertakings ("Undertakings") to the Company not to directly or indirectly engage in the business which competes or may compete with the Group, on terms and conditions as disclosed in the Prospectus. For details of the Undertakings, please refer to page 162 to 165 of the Prospectus.

The status of compliance with the Undertakings by the Controlling Shareholders during the year ended 31 December 2014 is as follows:

(1) the Board received from each of Mr. Liu, Wangji, Mr. Dong and Shen Wang a confirmation (i) of compliance with the Undertakings for FY2014, and (ii) that during FY2014, neither they nor their associates (as defined in the Listing Rules) had any interest in any project or business opportunity (otherwise than through their interests held through the Group) which relate to the business activities by the Group. Mr. Dong ceased to be a director of the Company in April 2012, and the Board received from Mr. Dong a confirmation that Mr. Dong and Shen Wang ceased to have any of the issued shares in the Company;

(2) none of the Director are aware of any circumstances which indicate that the Controlling Shareholders or their associates are in breach of the Undertakings during FY2014; and

(3) the terms of the Undertakings have remain unchanged since the Company's listing on the Stock Exchange in June 2011.

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 2014, 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 RMB648,000 and RMB221,000 respectively. The remuneration in respect of audit service was amounted to about RMB2,762,000.

Corporate Governance Report (Continued)

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 annual general meeting for the year ended 31 December 2013 ("2013 AGM") was held on 29 May 2014.

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.

Except for Ms. Peng Cuihong who had resigned on 17 January 2014 and did not attend the 2013 AGM, all Directors who held office at time of respective general meetings attended the 2013 AGM. Pursuant to Code Provision A.6.7 of the CG code, independent non-executive Directors should attend general meetings. Representative of the Company's external auditor also attended the 2013 AGM.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS (Continued)

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 2014, 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.

Directors' Report

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 2014.

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 39 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 2014 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 2014.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 25 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.

TAX RELIEF

For the year ended 31 December 2014, Shareholders were not entitled to any tax relief by virtue of their holding of the Shares.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2014, 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 2014, 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 42% (2013: 71%) of the Group's total revenue for the year and the revenue from the largest customer included therein accounted for about 14% (2013: 24%) 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 CRD Business, and EPD 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 2015, subsequent settlement of trade receivables with the Group's five largest customers after 31 December 2014 amounted to RMB$65.9 million. Except for one customer, the Group is in the view that, due to the financial background of the customers and the historical and subsequent payments, the risk of any part of its accounts receivable becoming not collectible is very low. However, taking a prudent approach in respect of the accounts receivable in FY2014, the Board determined to make a provision in the sum of about RMB50 million in respect of certain accounts receivables being the allowance for doubtful debts. (please see note 19 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.

Directors' Report (Continued)

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

In the year under review, supplies from the Group's five largest suppliers accounted for about 34% (2013: 53%) of the Group's total operating cost for the year and supplies from the largest supplier included therein accounted for about 13% (2013: 17%) 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 2014.

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

In accordance with article 105(A) of the Articles, Mr. Liu, Ms. Zhou and Mr. Chan Ming Sun Jonathan 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 2014:

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 39 to the financial statements of this annual report.

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 2014 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 35 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" above, 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 29 to the consolidated financial statements in this annual report.

Directors' Report (Continued)

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 2014	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2014	Exercise price* (HK$ per Share)
Employees of the Group						
In aggregate	42,000,000	—	6,000,000	36,000,000	—	2.192
Others						
In aggregate	12,000,000	—	—	12,000,000	—	2.192
In aggregate	12,000,000	—	12,000,000	—	—	1.920
In aggregate	7,600,000	—	—	7,600,000	—	2.176
Total	73,600,000	—	18,000,000	55,600,000	—	

Note:

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

No option was granted during the year ended 31 December 2014.

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

As at 31 December 2014, the Directors and the Company's chief executive, and their respective associates had the following interests in the Shares in and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have 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*	335,301,000	39.19%
	Beneficial owner	*1*	17,098,000	2%
Ms. Zhou Shuhua	Interest in spouse	*2*	352,399,000	41.19%

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 335,301,000 Shares. Further, Mr. Liu is the beneficial owner of 17,098,000 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' Report (Continued)

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

Interests in associated corporations

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

Notes:

1. Mr. Liu is 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 2014 (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2014, to the best of the knowledge and belief of the Directors, 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, persons 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 as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in Shares

Substantial Shareholders

Name	Capacity	Number of Shares	Approximate percentage of holding
Wangji	Beneficial owner	335,301,000	32.66%
CITIC Capital China Access Fund Limited ("CITIC") *(Note)*	Beneficial owner	90,000,000	8.77
CITIC Capital Holdings Limited *(Note)*	Interest of controlled corporation	90,000,000	8.77

Note: CITIC is the beneficial owner of the 90,000,000 Shares of the Company by virtue of the convertible bonds issued by the Company to it on 8 November 2013. CITIC is wholly owned by CITIC Capital Investment Management (Cayman) Limited, which is wholly owned by CITIC Capital Asset Management Limited, which is wholly owned by CITIC Capital Holdings Limited.

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, 26 March 2015

Independent Auditor's Report

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
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Dredging Environment Protection Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 128, which comprise the consolidated statement of financial position as at 31 December 2014, 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 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.

Independent Auditor's Report (Continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, 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
26 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	6	**910,592**	973,615
Operating cost		**(648,275)**	(624,187)
Gross profit		**262,317**	349,428
Other income	7	**43,983**	31,147
Other gains and losses, net	8	**(24,191)**	(19,511)
Marketing and promotion expenses		**(10,725)**	(13,232)
Administrative expenses		**(40,402)**	(47,513)
Finance costs	9	**(68,837)**	(40,502)
Profit before tax		**162,145**	259,817
Income tax expense	10	**(53,566)**	(78,535)
Profit and total comprehensive income for the year	11	**108,579**	181,282
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**92,524**	164,757
Non-controlling interests		**16,055**	16,525
		108,579	181,282
Earnings per share	13		
— basic (RMB)		**0.11**	0.21
— diluted (RMB)		**0.11**	0.21

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**1,726,628**	1,693,267
Prepaid land lease payments	*16*	**95,105**	90,599
Goodwill		**2,956**	2,956
Intangible assets	*17*	**—**	2,560
Available-for-sale investment	*18*	**20,921**	17,147
Deposit paid for acquisition of property, plant and equipment		**9,502**	551
Deferred tax assets	*26*	**7,106**	—
Accounts and other receivables due after one year	*19*	**191,991**	219,470
		2,054,209	2,026,550
CURRENT ASSETS			
Prepaid land lease payments	*16*	**2,554**	2,410
Accounts and other receivables and prepayments	*19*	**1,232,692**	1,016,708
Pledged bank deposits	*20*	**20,794**	53,521
Bank balances and cash	*20*	**158,339**	312,183
		1,414,379	1,384,822
CURRENT LIABILITIES			
Accounts and other payables	*21*	**430,243**	524,638
Amounts due to directors	*22*	**2,833**	1,792
Amounts due to non-controlling interests of a subsidiary	*23*	**1,644**	4,952
Tax payable		**111,033**	109,931
Bank borrowings	*24*	**592,349**	631,349
Other borrowings	*24*	**1,362**	6,244
		1,139,464	1,278,906
NET CURRENT ASSETS		**274,915**	105,916
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,329,124**	2,132,466

Consolidated Statement of Financial Position (Continued)

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CAPITAL AND RESERVES			
Share capital	25	**71,592**	67,200
Reserves		**1,712,540**	1,528,223
Equity attributable to owners of the Company		**1,784,132**	1,595,423
Non-controlling interests		**150,783**	134,728
TOTAL EQUITY		**1,934,915**	1,730,151
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary	23	**89,333**	90,708
Deferred tax liabilities	26	**17,753**	20,063
Bank borrowings	24	**39,058**	60,717
Other borrowings	24	**32,939**	21,003
Convertible bonds	27	**198,461**	172,056
Derivative financial liabilities embedded in convertible bonds	27	**14,423**	37,768
Derivative financial liabilities in relation to warrants	28	**2,242**	—
		394,209	402,315
		2,329,124	2,132,466

The consolidated financial statements on pages 52 to 128 were approved and authorised for issue by the board of directors on 26 March 2015 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 2014

	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 2013	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 29)*	–	–	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
Profit and total comprehensive income for the year	–	–	–	–	–	92,524	92,524	16,055	108,579
Transfer to PRC statutory reserve	–	–	–	6,109	–	(6,109)	–	–	–
Exercise of share options *(Note 29)*	4,392	101,716	(9,923)	–	–	–	96,185	–	96,185
Lapse of share options *(Note 29)*	–	–	(4,227)	–	–	4,227	–	–	–
At 31 December 2014	71,592	520,567	–	19,658	204,554	967,761	1,784,132	150,783	1,934,915

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 its subsidiaries and the paid-in capital of RMB39,316,000 of the PRC Operational Entity (as defined in Note 39) pursuant to the group reorganisation in 2011.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES			
Profit before tax		162,145	259,817
Adjustments for:			
Depreciation of property, plant and equipment		98,320	80,202
Fair value changes of derivative financial liabilities embedded in convertible bonds		(23,345)	19,511
Fair value loss in relation to warrants		2,004	—
Allowance for doubtful debts		49,259	—
Amortisation of intangible assets		2,560	—
Amortisation of prepaid land lease payments		603	2,410
(Gain) loss on disposal of property, plant and equipment		(3,727)	35
Share-based payment expense		—	4,994
Finance costs		68,837	40,502
Interest income		(34,909)	(13,902)
Operating cash flows before movements in working capital		321,747	393,569
Increase in accounts and other receivables		(335,279)	(300,030)
Increase (decrease) in accounts and other payables		26,693	(114,645)
Cash generated from (used in) operations		13,161	(21,106)
PRC income tax paid		(61,880)	(67,970)
NET CASH USED IN OPERATING ACTIVITIES		(48,719)	(89,076)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(58,793)	(68,316)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	30	—	(85,426)
Deposit paid for acquisition property, plant and equipment		(9,502)	(551)
Acquisition of interests in Yongheng		—	(400)
Payment for prepaid land lease payments		(6,991)	(209)
Consideration received from Hongji Construction	18	100,000	80,000
Withdrawal of pledged bank deposits		97,862	103,192
Placement of pledged bank deposits		(65,135)	(80,696)
Interest received		7,650	1,906
Proceeds from disposals of property, plant and equipment		10,437	—
Settlement of other payables in relation to purchase of property, plant and equipment in prior year		(170,540)	—
NET CASH USED IN INVESTING ACTIVITIES		(95,012)	(50,500)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
FINANCING ACTIVITIES			
New bank borrowings raised		**463,060**	750,770
Net proceeds from issue of shares	*29*	**96,185**	—
Net proceeds from issue of warrants	*28*	**238**	—
Advance from independent third parties		**105,370**	351,520
Proceeds on issue of convertible bonds	*27*	**—**	191,970
Advance from a director		**23,018**	28,225
New other borrowings raised		**12,900**	16,214
Advance from non-controlling interests of a subsidiary		**10,691**	14,269
Repayment of bank borrowings		**(523,719)**	(492,704)
Repayment to independent third parties		**(105,370)**	(351,520)
Repayment to directors		**(21,977)**	(34,165)
Interest paid		**(49,289)**	(34,058)
Repayment of other borrowings		**(5,846)**	(11,170)
Repayment to non-controlling interests of a subsidiary		**(15,374)**	(7,987)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(10,113)**	421,364
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(153,844)**	281,788
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**312,183**	30,395
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**158,339**	312,183

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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"). The Company's immediate and ultimate holding company is Wangji Limited, a limited company incorporated in the British Virgin Islands, which is ultimately owned by 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 39 to the consolidated financial statements.

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 2014, the Group has bank borrowings of approximately RMB592.3 million and other liabilities of approximately RMB547.1 million payable within one year from the end of the reporting period. While the Group has only bank and cash balances of RMB158.3 million at 31 December 2014, the Group's ability to repay its debts when they fall due relies heavily on the accounts receivables being settled within the management's expectation.

In view of the above, the Directors have carefully assessed the Group's liquidity position having taken into account of (i) the estimated operating cash flows of the Group for the next twelve months from the end of the reporting period; (ii) all the bank borrowings as at 31 December 2014 were secured by the Group's assets and therefore the Directors are confident that the bank borrowings can be renewed in the next twelve months; (iii) the Group's unutilised banking facilities of United States Dollars ("USD") 15 million (approximately RMB93.4 million) as at 31 December 2014 (not payable within twelve months from the date of drawdown); and (iv) the net proceeds from share placing of approximately HK$235.3 million (equivalent to approximately RMB185.9 million) received subsequent to 31 December 2014 (see Note 41).

Having considered the above, 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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 interpretation, amendments to Hong Kong Accounting Standards ("HKASs") and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC)-INT 21	Levies

The application of the above interpretation and amendments to 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[5]
HKFRS 15	Revenue from contracts with customers[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle[3]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[3]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[3]
Amendments to HKAS 1	Disclosure initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[3]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[1]
Amendments to HKAS 27	Equity method in separate financial statements[3]

1 Effective for annual periods beginning on or after 1 July 2014.

2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

3 Effective for annual periods beginning on or after 1 January 2016.

4 Effective for annual periods beginning on or after 1 January 2017.

5 Effective for annual periods beginning on or after 1 January 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to the Group are described below:

- 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 "Financial instruments" (Continued)

Based on the Group's existing business model and financial instruments as at 31 December 2014, the application of HKFRS 9 in the future may affect the classification and measurement of the Group's available for sale equity investments and may result in early recognition of credit losses based on expected loss model in relation to the Group's financial assets measured at amortised costs. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 "Revenue from contracts with customers"

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The entity is also required to adjust the promised amount of consolidation for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer with a significant benefit of financing the transfer of services. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effects of HKFRS 15 until the Group performs a detailed review.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 (Cap. 32).

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The significant accounting policies are as follows:

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.

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.

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.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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.

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 course of business, net of sales related taxes.

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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as 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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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).

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 investment in equity interest of 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Impairment loss for loans and receivables are assessed on an individual basis.

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.

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 asset carries 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible bonds (Continued)

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.

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.

Derivative financial liabilities in relation to warrants

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

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

Other financial liabilities

Other financial liabilities (including accounts and other payables, amounts due to directors, amounts due to non-controlling interests of a subsidiary, bank borrowings 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

On derecognition of a financial asset, 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.

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). Market conditions, such as a target share price upon which vesting is conditioned, is taken into account when estimating the fair value of the share options granted.

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, irrespective of whether market condition is satisfied. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements (Continued)

Share-based payment transactions of the Company (Continued)

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 option 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.

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 39), the PRC Operational Entity (as defined in Note 39) and its respective equity participants, being Mr. Liu and Ms. Zhou Shuhua ("Ms. Zhou") entered into the Contractual Arrangements (as defined in Note 39). The PRC Operational Entity and its subsidiaries are engaged in the provision of dredging services of the Group. Details of the Contractual Arrangements are set out in Note 39.

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

Critical judgements in applying accounting policies (Continued)

Consolidation of a structured entity (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 the PRC Operational Entity, 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 is accounted for as a consolidated structured entity as a subsidiary of the Company.

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 operation of the Group was 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, which may result in deconsolidation of it.

Key sources of estimation uncertainty

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

Estimated allowance for accounts and other receivables

Management regularly reviews the recoverability of accounts and other receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at the original effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required. As at 31 December 2014, the carrying amount of accounts and other receivables is approximately RMB1,388,177,000, net of allowance for doubtful debts of approximately RMB49,259,000. No allowance was provided for accounts and other receivables of approximately RMB1,192,596,000 for the year ended 31 December 2013.

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

Key sources of estimation uncertainty (Continued)

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

Dredgers and plant and machinery included in property, plant and equipment are depreciated over their useful lives. The assessment of estimated useful lives and residual values are matters of judgement 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 and warrants. 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 Notes 27 and 28, the third party valuer uses their judgement in selecting an appropriate valuation technique for the derivative financial liabilities not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The carrying amount of the derivative financial liabilities embedded in convertible bonds and the fair value of derivative financial liabilities in relation to warrants as at 31 December 2014 are approximately RMB14,423,000 (31 December 2013: RMB37,768,000) and RMB2,242,000 (31 December 2013: nil) respectively. Details of the assumptions used are disclosed in Notes 27, 28 and 37(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 makers have been aggregated in arriving at the reportable segments of the Group.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

6. REVENUE AND SEGMENT INFORMATION (Continued)

(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.

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 2014					
Segment revenue	474,417	208,451	53,291	174,433	910,592
Segment results	142,274	66,358	4,632	48,863	262,127
Allowance for doubtful debts *(note)*					(49,259)
Unallocated other income and other gain					27,972
Fair value changes of derivative financial liabilities embedded in convertible bonds					23,345
Fair value loss in relation to warrants					(2,004)
Unallocated corporate expenses					(36,712)
Finance costs					(63,324)
Group's profit before tax					162,145

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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 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
Unallocated other income					17,864
Fair value changes of derivative financial liabilities embedded in convertible bonds					(19,511)
Unallocated corporate expenses					(47,928)
Finance costs					(34,188)
Group's profit before tax					259,817

Note: Allowances for doubtful debts were arising from the operation of Capital and Reclamation Business.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

	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	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
For the year ended 31 December 2014							
Amounts included in the measure of segment profit or loss							
Depreciation of property, plant and equipment	**(70,125)**	**(2,025)**	**(672)**	**(24,487)**	**(97,309)**	**(1,011)**	**(98,320)**
Fair value changes of derivative financial liabilities embedded in convertible bonds	**–**	**–**	**–**	**–**	**–**	**23,345**	**23,345**
Fair value changes of derivative financial liabilities in relation to warrants	**–**	**–**	**–**	**–**	**–**	**(2,004)**	**(2,004)**
Amortisation of intangible assets	**(2,560)**	**–**	**–**	**–**	**(2,560)**	**–**	**(2,560)**
For the year ended 31 December 2013							
Amounts included in the measure of segment profit or loss							
Depreciation of property, plant and equipment	(46,262)	(11,891)	(4,634)	(17,319)	(80,106)	(96)	(80,202)
Fair value changes of derivative financial liabilities embedded in convertible bonds	–	–	–	–	–	(19,115)	(19,115)

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 embedded in convertible bond, fair value loss in relation to warrants, allowance for doubtful debts, 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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 2014					
Segment assets	**1,914,585**	**613,721**	**31,564**	**497,009**	**3,056,879**
Unallocated assets:					
Prepaid land lease payments					**97,659**
Pledged bank deposits					**20,794**
Available-for-sale investment					**20,921**
Consideration receivable (included in accounts and other receivables)					**81,846**
Shareholder's loan to Yongheng *(defined in Note 18)* (included in accounts and other receivables)					**14,804**
Bank balances and cash					**158,339**
Others					**17,346**
Consolidated assets					**3,468,588**
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 18)* (included in accounts and other receivables)					18,578
Bank balances and cash					312,183
Others					9,353
Consolidated assets					3,411,372

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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:

	2014	2013
	RMB'000	RMB'000
Customer A		
— Capital and Reclamation Dredging Business	***note***	235,346
Customer B		
— Environmental Protection Dredging and Water Management Business	**124,079**	151,812
Customer C		
— Capital and Reclamation Dredging Business	***note***	124,798
Customer D		
— Environmental Protection Dredging and Water Management Business	***note***	116,896
Customer E		
— Capital and Reclamation Dredging Business	**120,056**	*note*
Customer F		
— Capital and Reclamation Dredging Business	**98,560**	*note*

Note: Customers A, C and D did not contribute over 10% of the Group's total revenue for the year ended 31 December 2014 and Customers E and F did not contribute over 10% of the Group's total revenue for the year ended 31 December 2013.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

7. OTHER INCOME

	2014 RMB'000	2013 RMB'000
Government financial incentive *(note)*	**8,644**	16,041
Bank interest income	**7,650**	1,906
Interest income in respect of non-current accounts receivable	**18,381**	11,996
Interest income in respect of consideration receivable *(Note 18)*	**8,878**	—
Sundry income	**430**	1,204
	43,983	31,147

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

The PRC local government authority confirmed that the amount for such financial incentive that the Group was entitled for the year ended 31 December 2014 was RMB8,644,000 (2013: RMB16,041,000). Accordingly, the Group recognised such amount as other income for the year.

8. OTHER GAINS AND LOSSES, NET

	Notes	2014 RMB'000	2013 RMB'000
Gain on disposal of property, plant and equipment		**3,727**	—
Fair value changes of derivative financial liabilities embedded in convertible bonds	*27*	**23,345**	(19,511)
Fair value loss in relation to warrants	*28*	**(2,004)**	—
Allowance for doubtful debts	*19(i)*	**(49,259)**	—
		(24,191)	(19,511)

9. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	**39,622**	33,563
Discounted bills receivable	**1,173**	495
Other borrowings	**1,581**	1,327
Amounts due to non-controlling interests	**1,150**	1,015
Effective interest on convertible bonds *(Note 27)*	**32,165**	4,102
Total borrowing costs	**75,691**	40,502
Less: amounts capitalised in the cost of qualifying assets	**(6,854)**	—
	68,837	40,502

Borrowing cost capitalised during the year ended 31 December 2014 of approximately RMB6,854,000 (2013: nil) arose on the general borrowing pool calculated by applying a capitalisation rate of 8.48% (2013: nil) per annum. Borrowing cost was capitalised as part of the construction in progress in respect of a factory at Yancheng City.

10. INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**62,982**	80,328
Deferred taxation *(Note 26)*	**(9,416)**	(1,793)
	53,566	78,535

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

10. INCOME TAX EXPENSE (Continued)

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

	2014 RMB'000	2013 RMB'000
Profit before tax	**162,145**	259,817
Tax at the PRC EIT rate of 25% (2013: 25%)	**40,536**	64,954
Tax effect of expenses not deductible for tax purpose	**10,922**	13,581
Tax effect of tax losses not recognised	**2,108**	—
Tax charge for the year	**53,566**	78,535

(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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

11. PROFIT FOR THE YEAR

	2014 RMB'000	2013 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	2,762	2,370
Depreciation of property, plant and equipment	98,320	80,202
Net foreign exchange (gain) losses (included in administrative expenses)	(109)	2,307
Amortisation of intangible assets	2,560	—
Directors' emoluments *(Note 12)*	3,100	4,401
Share-based payment expense *(Note 29)*	—	4,994
Other staff costs	50,837	41,922
Retirement benefit scheme contributions, excluding those of directors	3,296	2,636
Total staff costs	57,233	53,953
Allowance for doubtful debts	49,259	—
(Gain) loss on disposal of property, plant and equipment	(3,727)	35
Sub-contracting charges included in operating cost	291,464	314,552

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

12. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

Directors and Chief Executive Officer

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

For the year ended 31 December 2014

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive directors:				
Mr. Liu *(note)*	1,775	—	—	1,775
Ms. Zhou	1,025	—	—	1,025
	2,800	—	—	2,800
Non-executive director:				
Mr. Liu Longhua	—	—	—	—
Independent non-executive directors:				
Mr. Chan Ming Sun Jonathan	150	—	—	150
Ms. Peng Cuihong (resigned on 17 January 2014)	—	—	—	—
Mr. Huan Xuedong	150	—	—	150
Mr. Xu Hengju (appointed on 17 January 2014)	—	—	—	—
	300	—	—	300
	3,100	—	—	3,100

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

Directors and Chief Executive Officer (Continued)

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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

Employees

Of the Group's five highest paid individuals during the year, two (2013: two) of them were directors and Chief Executive Officer whose emoluments are presented above. The emoluments of the remaining three (2013: three) highest paid individuals, were as follows:

	2014 RMB'000	2013 RMB'000
Salaries and other allowances	**1,530**	1,379
Retirement benefit scheme contributions	**36**	47
Share-based payments	**—**	—
	1,566	1,426

Their emoluments were within the following bands:

	2014 No. of employees	2013 No. of employees
Nil to HK$1,000,000 (RMB790,000)	**3**	3

During both years, no emoluments were paid by the Group to any of the directors, Chief Executive Officer or the five highest paid individuals (including directors, Chief Executive Officer and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

13. 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:

	2014 RMB'000	2013 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	92,524	164,757

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	844,288	800,000
Effect of dilutive potential ordinary shares:		
Share options	5,671	403
Weighted average number of ordinary shares for the purpose of diluted earnings per share	849,959	800,403

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

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

The computation of diluted earnings per share for the year does not assume the exercise of the outstanding warrants, which were issued during the current year, since the exercise price of the warrants was higher than the average market price of the shares during the year 2014.

14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2014 and 31 December 2013, nor has any dividend been proposed since the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

15. 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 2013	7,858	244	1,410,721	44,777	1,135	9,592	–	1,474,327
Acquisition of a subsidiary *(Note 30)*	–	–	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
Additions	29,268	–	2,743	15,091	152	725	90,412	138,391
Transfer	25,452	–	4,259	–	–	–	(29,711)	–
Disposals/write-off	(8,177)	–	–	–	–	–	–	(8,177)
At 31 December 2014	54,401	244	1,726,575	94,833	1,669	10,758	112,726	2,001,206
ACCUMULATED DEPRECIATION								
At 1 January 2013	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
Provided for the year	1,216	–	88,122	7,039	384	1,559	–	98,320
Eliminated on disposals/ write-off	(1,467)	–	–	–	–	–	–	(1,467)
At 31 December 2014	688	244	245,994	19,547	963	7,142	–	274,578
CARRYING VALUE								
At 31 December 2014	53,713	–	1,480,581	75,286	706	3,616	112,726	1,726,628
At 31 December 2013	6,919	–	1,561,701	67,234	938	4,450	52,025	1,693,267

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

As certain lease payments relating to the leasehold property cannot be allocated reliably between the land and building elements, that 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 the PRC.

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 leasehold land and building of RMB53,413,000 (2013: RMB6,919,000) includes an amount of RMB24,545,000 (2013: nil) pledged for bank borrowings. The net book value of dredgers and vessels of RMB1,480,581,000 (2013: RMB1,561,701,000) includes an amount of RMB255,968,000 (2013: RMB269,630,000) as asset held as collateral for the Agreement (as defined in Note 24) and amount of RMB918,638,000 (2013: RMB876,275,000) pledged to bank borrowings. Details are further set out in Note 33.

16. PREPAID LAND LEASE PAYMENTS

	2014	2013
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**2,554**	2,410
Non-current assets	**95,105**	90,599
	97,659	93,009

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

17. INTANGIBLE ASSETS

	RMB'000
At 1 January 2013	—
Acquisition of a subsidiary *(Note 30)*	2,560
At 31 December 2013	2,560
Amortisation charged for the year	(2,560)
At 31 December 2014	—

Backlog contract represents the contracts signed between a newly acquired subsidiary during the year ended 2013 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 actual progress of respective contracts.

18. AVAILABLE-FOR-SALE INVESTMENT

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

鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co. , Ltd*) ("Yongheng") is a limited liability company established in the PRC, the sole assets of which are two parcels of land in the PRC. The scope of business of Yongheng includes construction and development of properties. The 95% equity interest in Yongheng is determined with reference to the fair value of assets and liabilities 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) as of 31 December 2012.

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

* *for identification only*

18. AVAILABLE-FOR-SALE INVESTMENT (Continued)

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

(iv) payment of any outstanding balance before 31 December 2015.

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

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 payments as set out in point (i), (ii) and (iii) were fully settled as at 31 December 2014.

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 2014, the AFS investment is measured at cost less impairment, because there is no quoted market price in an active market and the range of reasonable fair value estimates is so significant. The directors of the Company are of the opinion that the fair value cannot be measured reliably.

The shareholder's loan to Yongheng is unsecured, interest-free and has no fixed repayment terms. At 31 December 2014, in the opinion of the directors, the shareholder's loan is not expected to be recovered within one year from the end of the reporting period. The balance is, therefore, classified as non-current.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

19. ACCOUNTS AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Non-current:		
Accounts receivable *(notes (i) and (ii))*	**171,557**	117,971
Value-added tax recoverable *(note (iv))*	**5,630**	9,953
Shareholder's loan to Yongheng *(defined in Note 18)*	**14,804**	18,578
Consideration receivable *(Note 18)*	**—**	72,968
	191,991	219,470
Current:		
Accounts receivable *(note (i) and (ii))*	**1,101,026**	862,888
Bills receivable *(note (iii))*	**7,000**	4,150
Government financial incentive receivables *(Note 7)*	**11,944**	16,041
Deposits and prepayments	**18,943**	22,307
Value-added tax recoverable *(note (iv))*	**6,042**	5,450
Consideration receivable *(Note 18)*	**81,846**	100,000
Others	**5,891**	5,872
	1,232,692	1,016,708
	1,424,683	1,236,178

Notes:

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

The Group prepares an aged analysis for its accounts 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

19. ACCOUNTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(i) (Continued)

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

Aged analysis of the Group's accounts receivable

	2014 RMB'000	2013 RMB'000
0–30 days	188,827	193,977
31–60 days	94,295	60,129
61–90 days	58,605	63,472
91–180 days	93,243	221,265
Over 180 days	837,613	442,016
	1,272,583	980,859

Included in the accounts receivables balance is retention money of approximately RMB163,000,000 (2013: RMB95,000,000) as at 31 December 2014.

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

Aging of accounts receivable from due date which were past due but not impaired

	2014 RMB'000	2013 RMB'000
0–30 days	—	1,614
31–60 days	70,144	60,129
61–90 days	37,331	63,472
91–180 days	196,149	185,239
Over 180 days	497,045	310,983
	800,669	621,437

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 account receivables as at 31 December 2013 was approximately RMB179,031,000 due from a customer of which the related dredging project has been suspended since January 2014 due to change in use of relevant reclaimed areas by the Government. During the year ended 31 December 2014, a property located in the PRC was transferred to the Group at its fair value of RMB21,000,000 to partly settle the outstanding amounts. The property is included in additions of leasehold land and building in Note 15. The fair value of the property was determined by Jones Lang LaSalle Corporate Appraisal and Advisory Limited by market comparison approach, a registered valuation firm in Hong Kong which is independent to the Group. The receivable from this customer as at 31 December 2014 is approximately RMB120,103,000.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

19. ACCOUNTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(i) (Continued)

Subsequent to the reporting period, the customer has signed an agreement (the "Agreement") with the Group to repay approximately RMB51,680,000 before 31 December 2015 and another RMB40,000,000 before 31 December 2016. The balances of account receivable are unsecured and interest-free. After assessing the repayment ability of the customer, the management is confident that the commitment of the customer could be fulfilled. Taking the above arrangement into account, allowance for doubtful debts of RMB49,259,000 was recognised at an effective interest rate of 20% per annum. Such allowance is attributed to (i) losses of approximately RMB20,836,000 by reference to the settlement dates set out in the Agreement; and (ii) allowance for the remaining outstanding balance of RMB28,423,000 without committed date of repayment from this customer.

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

Movement in allowance for doubtful debts

	2014 RMB'000
Balance at beginning of the year	—
Charged to profit or loss	49,259
Balance at end of the year	49,259

(ii) Non-current accounts receivable, except retention money due after one year from the end of reporting period, represents amounts due from several customers for contract works, for which the contracts include clauses for extended payment terms beyond one year. During the year, interest income calculated at a rate of 10% per annum (2013: 10% per annum) of about RMB18,381,000 (2013: RMB11,996,000) was recognised.

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

Aged analysis of the Group's bills receivable

	2014 RMB'000	2013 RMB'000
0–30 days	300	400
31–60 days	1,000	750
61–90 days	3,000	3,000
91–180 days	1,650	—
Over 180 days	1,050	—
	7,000	4,150

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

19. ACCOUNTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(iv) As at 31 December 2014, an amount of RMB10,471,000 (2013: RMB15,403,000) value-added tax paid by the Group in connection with its purchase of plant and machinery and dredgers in relation to Other Marine Business could be used to set-off against future value-added tax payable in relation to revenue generated from Other Marine Business. The Group has estimated that the value-added tax payable for the twelve months ending 31 December 2014 is approximately RMB6,042,000 (2013: RMB5,450,000). Accordingly, the remaining value-added tax recoverable of RMB4,429,000 (2013: RMB9,953,000) is not expected to be recovered within one year from the end of the reporting period and is classified as non-current. Furthermore, value-added tax paid of approximately RMB1,201,000 by the Group in connection with its construction-in-progress could be set-off against future value added tax payable generated from the Group. As the amount is not expected to be recovered within one year from the end of reporting, RMB1,201,000 (2013: nil) is classified as non-current.

20. 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 4.00% (2013: 0.01% to 2.86%) 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% (2013: 2.8%) per annum. The pledged bank deposits will be released upon the settlement of corresponding bills payables and bank borrowings.

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

	2014	2013
	RMB'000	RMB'000
United States Dollar ("US$")	**253**	18,508
Hong Kong Dollar ("HK$")	**5,645**	1,273

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

21. ACCOUNTS AND OTHER PAYABLES

	2014 RMB'000	2013 RMB'000
Accounts payables		
Sub-contracting charge	**203,161**	162,505
Fuel cost	**26,387**	31,227
Repair and maintenance	**11,341**	14,338
Others	**2,473**	1,350
	243,362	209,420
Bills payable	**5,653**	38,501
Other payables		
Payable for property, plant and equipment	**49,452**	170,540
Accrual other taxes	**86,282**	66,502
Accrual staff salaries and welfare	**17,736**	15,389
Receipts in advance	**5,789**	6,431
Interest on convertible bonds due within one year	**5,759**	5,759
Others	**16,210**	12,096
	181,228	276,717
	430,243	524,638

21. ACCOUNTS AND OTHER PAYABLES (Continued)

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

	2014 RMB'000	2013 RMB'000
0–30 days	101,484	122,391
31–60 days	38,087	10,190
61–90 days	12,001	16,213
91–180 days	6,059	11,082
Over 180 days	85,731	49,544
	243,362	209,420

22. AMOUNTS DUE TO DIRECTORS

As at 31 December 2014, the balance represented advance from and emolument payable to certain directors of approximately RMB666,000 (2013: RMB1,635,000) and an amount due to Mr. Liu of approximately RMB2,167,000 (2013: RMB157,000). All amounts are unsecured, interest-free, repayable on demand and non-trade in nature.

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

Included in the balance was an amount of RMB5,914,000 (2013: RMB16,059,000) which is the remaining consideration payable to Vendor Shareholders arising from the Acquisition (note). All balance is non-interest bearing except for an amount of approximately RMB13,845,000 as at 31 December 2014 (2013: RMB1,367,000) which is interest bearing at 6.25% (2013: 6.25%). On 31 December 2014, certain non-controlling interests agreed not to demand repayment of RMB89,333,000 of the amounts due to them before January 2016 (2013: RMB90,708,000 of the amounts due to them before April 2015). All amounts are unsecured and non-trade in nature.

Note: On 20 February 2012, the Group acquired 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") 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 and (ii) subscription for 40% equity interest in the registered capital (as enlarged) in Jiangsu Jiaolong for a consideration of RMB84,521,000.

* *for identification only*

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

24. BANK AND OTHER BORROWINGS

	2014 RMB'000	2013 RMB'000
Secured bank borrowings		
Payment schedule according to contractual repayment terms *(note i)*		
Repayable within one year	**589,189**	631,349
Repayable in more than one year but not exceeding two years	**20,863**	19,579
Repayable in more than two years but not exceeding five years	**18,195**	41,138
	628,247	692,066
Unsecured bank borrowing repayable on demand *(note ii)*	**3,160**	—
	631,407	692,066
Less: amount due for settlement within one year or repayable on demand	**(592,349)**	(631,349)
	39,058	60,717
Unsecured other borrowings		
Repayable on demand and classified as current liabilities	**1,362**	6,244
Classified as non-current liabilities	**32,939**	21,003
	34,301	27,247

Notes:

(i) The effective interest rates of the secured bank borrowings are set out in the following table:

	2014 RMB'000	2013 RMB'000
Fixed interest at 1.5%	**—**	98,038
Fixed interest at 2.2% (2013: 2.2%)	**203,782**	112,632
Fixed interest at 6.4% in relation to the Agreement as defined below (2013: 6.4%)	**60,296**	80,296
Fixed interest at 6.60% to 7.8% (2013: 3.62% to 7.8%)	**364,169**	401,100
	628,247	692,066

(ii) The bank borrowing is unsecured, without fixed repayment term and carrying interest at Hong Kong Interbank Offer Rate ("HIBOR") plus 3.2%, with effective interest rate of 3.58% during the year ended 31 December 2014.

24. BANK AND OTHER BORROWINGS (Continued)

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.

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.

As at 31 December 2014 and 2013, the Group's bank borrowings were supported by the corporate guarantees given by Xiangyu PRC (defined in Note 39) and the Company. The Group's bank borrowings to the extent of RMB404,466,000 (2013: RMB461,396,000) were secured by certain assets of the Group (see Note 33), 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 35(ii)).

Included in the Group's other borrowings, approximately RMB25,051,000 (2013: RMB16,250,000) carried fixed interest rates at 6.25% per annum (2013: 6.25% 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, without fixed repayment term and were borrowed from independent third parties. On 31 December 2014, certain counterparties agreed not to demand repayment before 31 January 2016 (2013: 31 December 2014) and accordingly, RMB32,939,000 (2013: RMB21,003,000) due to these parties are classified as non-current.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

25. SHARE CAPITAL/PAID-IN CAPITAL

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

Note: During the year ended 31 December 2014, options were exercised to subscribe for 48,000,000 and 7,600,000 (2013: nil) shares at an option exercise price of HK$2.192 and HK$2.176 respectively. Details are further set out Note 29.

26. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES

The following is the major deferred tax assets and (deferred tax liabilities) recognised and movements thereon during the current and prior year:

	Allowance for doubtful debt RMB'000	Fair value adjustment of property, plant and equipment on acquisition of subsidiaries RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013	—	(21,856)	—	—	(21,856)
Charged to profit or loss *(Note 10)*	—	1,793	—	—	1,793
At 31 December 2013	—	(20,063)	—	—	(20,063)
Charged to profit or loss *(Note 10)*	7,106	2,310	3,074	(3,074)	9,416
At 31 December 2014	7,106	(17,753)	3,074	(3,074)	(10,647)

26. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (Continued)

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 RMB301,386,000 (2013: RMB237,377,000). 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.

At the end of the reporting period, the Group has unused tax loss of RMB23,088,000 (2013: RMB2,362,000). A deferred tax asset has been recognised in respect of RMB12,297,000 (2013: nil) of such losses. No deferred tax asset has been recognised for the remaining tax loss of RMB10,791,000 (2013: RMB2,362,000) due to unpredictability of future profit streams.

27. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS

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

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 separately as derivative liabilities, which are not closely related to the host debt component. The fair values of the debt component and the derivative component were determined at the date of issue. Subsequent to initial recognition, the debt component is carried at amortised cost while the derivative component is measured at fair value, with changes in fair value recognised in profit or loss. The effective interest rate of the debt component is 16.9%.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

27. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS (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 9)*	4,102	—	4,102
Changes in fair value	—	19,511	19,511
At 31 December 2013	177,815	37,768	215,583
Amortisation using effective interest method *(Note 9)*	32,165	—	32,165
Changes in fair value	—	(23,345)	(23,345)
Interest settlement	(5,760)	—	(5,760)
At 31 December 2014	204,220	14,423	218,643

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

	2014 **RMB'000**	2013 RMB'000
Interest payable within one year included in other payables	**5,759**	5,759
Convertible bonds included as non-current liabilities	**198,461**	172,056
	204,220	177,815

Fair values of the derivative component (representing the conversion options of the convertible bonds) at 31 December 2013 and 31 December 2014 are determined using Binomial Tree Pricing Model by independent valuer, with inputs as follow:

	31 December 2013	**31 December 2014**
Valuation date share price	HK$2.49	HK$1.45
Conversion price	HK$2.70	HK$2.70
Time to maturity	2.854 years	1.85 years
Risk-free rate	0.6336%	0.505%
Volatility	37.433%	65%
Dividend yield of the Company	0.00%	0.00%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

28. DERIVATIVE FINANCIAL LIABILITIES IN RELATION TO WARRANTS

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

The net proceeds from the issue amounted to HK$300,000 (equivalent to RMB238,000). The Warrants are denominated in HK$, which is a currency other than the Company's functional currency. The subscription rights in the Warrants, denominated in HK$, do not exchange a fixed number of the Company's own equity instruments for a fixed amount of cash. Accordingly, the warrants are accounted for as derivative liabilities and are stated at fair value with changes in fair value recognised in profit or loss. During the year ended 31 December 2014, net fair value loss of RMB2,004,000 was recognised through profit or loss.

At 31 December 2014, the Company had outstanding 35,000,000 Warrants to be exercised at any time on or before 16 January 2016, exercise in full of such Warrants would result in the issue of approximately 35,000,000 additional ordinary shares of HK$0.10 each.

Fair values of the Warrants at 17 January 2014 (date of issue) and 31 December 2014 are determined using Binomial Model by independent valuer, with inputs as follow:

	17 January 2014	**31 December 2014**
Valuation date share price	HK$3.02	HK$1.45
Exercise price	HK$2.70	HK$2.70
Time to maturity	2.00 years	1.04 years
Risk-free rate	0.3280%	0.149%
Volatility	38.760%	63.94%
Dividend yield of the Company	0.00%	0.00%

29. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

29. 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	Exercisable period	At 1 January 2013	Granted during the year	At 1 January 2014	Exercised during the year	Lapsed during the year	At 31 December 2014
Employees *(note i)*	30 March 2012	2.192	19 April 2012 to 30 March 2014	42,000,000	–	42,000,000	(36,000,000)	(6,000,000)	–
Others *(note ii)*	30 March 2012	2.192	19 April 2013 to 30 March 2014	12,000,000	–	12,000,000	(12,000,000)	–	–
Others *(note ii)*	29 May 2012	1.920	18 June 2013 to 29 May 2014	12,000,000	–	12,000,000	–	(12,000,000)	–
Others *(note iii)*	2 September 2013	2.176	*(note iii)*	–	7,600,000	7,600,000	(7,600,000)	–	–
				66,000,000	7,600,000	73,600,000	(55,600,000)	(18,000,000)	–
Exercisable at the end of the year				42,000,000		66,000,000			–
Weighted average exercise price per share				HK$2.14	HK$2.176	HK$2.146	HK$2.19	HK$2.011	–

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

During the year ended 31 December 2014, options were exercised to subscribe for 48,000,000 and 7,600,000 (2013: nil) shares at an option price of HK$2.192 and HK$2.176 respectively. Net proceeds of HK$121,754,000 (approximately RMB96,185,000) were received.

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.

The aggregate fair values of the share options granted during the year ended 2013 determined at the dates of grant using the Binomial Option Pricing model was HK$2,466,000 (RMB1,948,000). During the year ended 31 December 2014, share-based expense of nil (2013: RMB4,994,000) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

30. ACQUISITION OF SUBSIDIARIES

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 Xingyu Environment Protection Company Limited* 江蘇興宇疏浚環保有限公司 (formerly known as Jiangsu Province Lugang Construction Project Co., Limited* 江蘇省路港建設工程有限公司 ("Jiangsu Xingyu EN"), a limited liability company incorporated in the PRC, at a cash consideration of RMB85,800,000. Jiangsu Xingyu EN 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 profit for the year ended is loss of RMB11,000 attributable to the additional business generated by Jiangsu Xingyu EN. Jiangsu Xingyu EN contributed no revenue for the year ended 31 December 2013 since the date of acquisition.

Had the acquisition been completed on 1 January 2013, total group revenue for the year 31 December 2013 would have been RMB995 million, and profit for the year 31 December 2013 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*

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

30. ACQUISITION OF SUBSIDIARIES (Continued)

In determining the 'pro-forma' revenue and profit of the Group had Jingsu Xiangyu EN 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.

31. OPERATING LEASES

The Group as lessee

(i) Minimum lease payments paid

	2014 RMB'000	2013 RMB'000
Minimum lease payments paid under operating leases during the year:		
chartered dredgers	**2,872**	1,320
office premises	**2,298**	2,080
transportation vessels	**4,555**	4,200
	9,725	7,600

(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

	2014 RMB'000	2013 RMB'000
Within one year	**—**	1,320

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

31. OPERATING LEASES (Continued)

The Group as lessee (Continued)

(ii) Minimum lease payment commitments (Continued)

(b) Office premises

	2014 RMB'000	2013 RMB'000
Within one year	2,081	1,827
In the second to fifth years, inclusive	1,576	463
Over five years	—	61
	3,657	2,351

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 RMB14,018,000 (2013: RMB12,845,000). 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:

	2014 RMB'000	2013 RMB'000
Within one year	—	1,512

32. CAPITAL COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital commitments contracted but not provided for relating to the following:		
Acquisition of property, plant and equipment	3,301	88,186
Investment in a sino-foreign joint venture in the PRC *(note)*	24,000	24,000

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

32. CAPITAL COMMITMENTS (Continued)

Note: 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.

33. 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:

	2014	2013
	RMB'000	RMB'000
Dredgers included in property, plant and equipment	**918,638**	876,275
Building included in property, plant and equipment	**24,545**	—
Prepaid land lease payments	**97,659**	93,009
Accounts receivable *(note)*	**70,844**	260,932
Pledged bank deposits	**20,794**	53,521
	1,132,480	1,283,737

Note: Accounts receivable relate to certain dredging projects which were pledged to secure the Group's bank borrowings. The banks could exercise their rights over any outstanding accounts receivables relating to the relevant dredging projects in the event of the Group's breach of the terms of bank borrowings. As at 31 December 2014, outstanding accounts receivables relating to these projects amounted to RMB70,844,000 (2013: RMB260,932,000) and the related bank borrowings amounted to RMB60,717,000 (2013: RMB90,296,000).

In addition, as at 31 December 2014, the Group's bank borrowing to the extent of RMB60,717,000 (2013: RMB80,296,000) was secured by one of the Group's dredgers with a carrying amount of RMB255,968,000 (2013: RMB269,630,000) being held as a collateral. Details of such bank borrowing are set out in Note 24.

34. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

35. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group paid rentals of RMB96,000 (2013: RMB40,000) to certain companies controlled by Mr. Liu in respect of office premises.

In addition, the Group received other advances from, and made repayments to, Mr. Liu during the year ended 31 December 2014 and 2013. As at 31 December 2014, the amount due to Mr. Liu was RMB2,167,000 (2013: RMB157,000).

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

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

(a) corporate guarantee given by Xiangyu PRC;

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

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

In addition, as at 31 December 2014, the Group's bank borrowings to the extent of HK$257,952,000 (equivalent to RMB203,782,000) (2013: HK$267,251,000 (equivalent to RMB210,670,000)) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by two parcels of land owned by Yongheng. Another bank borrowing of the Group of RMB20 million (2013: 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 22 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 12 to the consolidated financial statements.

36. 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. Having considered the factors and circumstance 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 next twelve months from the end of reporting period.

36. CAPITAL RISK MANAGEMENT (Continued)

The capital structure of the Group consists of amounts due to non-controlling interests of a subsidiary, bank and other borrowings and convertible bonds as disclosed in Notes 22, 23, 24 and 27 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.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2014 RMB'000	2013 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,574,011**	1,564,837
Financial liabilities		
Amortised cost	**1,388,222**	1,417,717
Fair value through profit or loss	**16,665**	37,768

(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, amounts due to non-controlling interests of a subsidiary, bank borrowings, other borrowings, convertible bonds, derivative financial liabilities embedded in convertible bonds and derivative financial liabilities in relation to warrants. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

37. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Currency risk

The Group has foreign currency transactions, which expose the Group to foreign currency risk. The Company will consider the use of foreign currency forward contracts to mitigate the risk when the need 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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**253**	18,508	**—**	—
HK$	**5,946**	1,440	**417,826**	420,494

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in the functional currency of the relevant group entities against the relevant foreign currencies and all other variable were held constant. 5% (2013: 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 US$ by 5% or strengthen against HK$ by 5%, and vice versa.

	Increase (decrease) in post-tax profit	
	2014	2013
	RMB'000	RMB'000
US$	**9**	694
HK$	**(15,446)**	(15,715)

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.

37. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank balances for the year ended 31 December 2014 and 2013 and a variable-rate bank borrowing carrying prevailing interest rates at HIBOR (see Note 24) for the year ended 31 December 2014. 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 2014 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.

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

(iii) Other price risk

For the year ended 31 December 2014, the Group is required to estimate the fair value of the derivative financial liability embedded in convertible bonds and derivative financial liabilities in relation to warrants 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 volatility adopted in the valuation model. The fair value of the derivative financial liability embedded in convertible bonds as at 31 December 2014 will be increased by approximately RMB26 million (2013: RMB60 million)/decreased by approximately RMB12 million (2013: RMB21 million) if the share price be 30% higher/lower and all other input variables of the valuation model were held constant. The fair value of financial liabilities in relation to warrants as at 31 December 2014 will be increased by approximately RMB7 million (2013: nil)/decreased by approximately RMB0.3 million (2013: nil) if the share price be 30% (2013: 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.

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, especially from the long due accounts receivables.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

37. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

Because of its business nature, the Group normally transacts with large PRC state-owned companies, local governments and large private enterprises with solid financial background, and hence the customer base is typically small. The management of the Group has delegated a team responsible for performing background check before acceptance of new projects and determination of credit limits and credit approvals. Most of the customers have been cooperating with the Group for many years and are maintaining good relationship with the Group. Due to its small number of customer, management regularly visits each customer to ensure that there is no dispute on the amounts due and understand reasons for delaying repayment. In case repayment fall behind schedule, the management discusses with each of the customers for committing repayment in reasonable time. The management also reviews the recoverable amount of each individual customer regularly to ensure that adequate impairment losses are made for irrecoverable amounts.

Based on the settlement history of the major customers, despite for the fact that there was no dispute nor default on repayment commitments, the Group usually takes long processing time in following the settlement of outstanding receivables. As the Group becomes more aggressive in improving trade receivables' turnover period and negotiating with the customers with long-aged receivables to commit to repayment, the directors of the Company consider that the Group's credit risk on trade receivables has been properly addressed.

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:

	2014	2013
	%	%
Amount due from the largest customer as a percentage to total accounts receivables	**18**	18
Amount due from the five largest customers as a percentage to total accounts receivables	**54**	74

As mentioned above, the number of customers is small. Due to its small number, management regularly visits each 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 from the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

37. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

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.

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 2014							
Non-derivative financial liabilities							
Accounts payables	—	243,362	—	—	—	243,362	243,362
Bills payable	—	4,039	1,614	—	—	5,653	5,653
Other payables (excluding current portion of convertible bonds)	—	175,469	—	—	—	175,469	175,469
Amounts due to directors	—	2,833	—	—	—	2,833	2,833
Amounts due to non-controlling interests of a subsidiary non-interest bearing	—	1,644	—	89,333	—	90,977	90,977
Bank borrowings							
— interests bearing at fixed rates	6.05	112,516	496,239	24,255	18,191	651,201	628,247
— interests bearing at floating rate	3.58	3,160	—	—	—	3,160	3,160
Other borrowings							
— non-interest bearing	—	—	—	7,885	—	7,885	7,885
— interest bearing at fixed rates	6.25	1,362	—	26,620	—	27,982	26,416
Convertible bonds							
— current	—	—	5,759	—	—	5,759	5,759
— non-current	16.91	—	—	262,615	—	262,615	198,461
		544,385	503,612	410,708	18,191	1,476,896	1,388,222
Derivative financial liabilities							
Derivative financial liabilities embedded in convertible bonds	—	14,423	—	—	—	14,423	14,423
Derivative financial liabilities in relation to warrants	—	2,242	—	—	—	2,242	2,242

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

37. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	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 (excluding current portion of convertible bonds)	–	175,216	–	–	–	175,216	175,216
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							
– current	–	–	5,759	–	–	5,759	5,759
– non-current	16.91	–	–	5,759	262,600	268,359	172,056
		610,308	479,554	142,350	305,046	1,537,258	1,417,717
Derivative financial liabilities							
Derivative financial liabilities embedded in convertible bonds	–	37,768	–	–	–	37,768	37,768

37. 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 measured 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 2014, the fair value of the derivative financial liabilities embedded in convertible bonds and the fair value of derivative financial liabilities in relation to warrants is RMB14,423,000 (2013: RMB37,768,000) and RMB2,242,000 (2013: nil) respectively. The fair value of the derivative financial liabilities embedded in convertible bonds (representing the conversion options of the convertible bonds issued by the Group during the year ended 31 December 2013) and the fair value of derivative financial liabilities in relation to warrants are determined using Binomial Tree Pricing Model and Binomial Model respectively, 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 pricing models. Carrying amount of the derivative financial liabilities embedded in convertible bonds would be increased by RMB26 million (2013: RMB28 million)/decrease by RMB12 million (2013: RMB5 million) and the carrying amount of derivative financial liabilities in relation to warrants would be increased by RMB4 million (2013: nil)/decreased in RMB0.8 million (2013: nil) respectively when the volatility increased/decreased by 10% (2013: 10%) and all other input variables of the valuation models were held constant.

The derivative financial liabilities embedded in convertible bonds and the derivative financial liabilities in relation to warrants are classified as Level 3 under the fair value hierarchy at 31 December 2014.

Reconciliation of Level 3 fair value measurements of the financial liabilities embedded in convertible bonds is as below:

	RMB'000
At 1 January 2013	—
Issue of convertible bonds	18,257
Changes in fair value	19,511
At 31 December 2013	37,768
Changes in fair value	(23,345)
At 31 December 2014	14,423

37. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Reconciliation of Level 3 fair value measurements of the fair value of derivative financial liabilities in relation to warrants is as below:

	RMB'000
At 1 January 2014	—
Issue of warrants	21,589
Changes in fair value	(19,347)
At 31 December 2014	2,242

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2014, a property with a fair value RMB21,000,000 was transferred to the Group in lieu of settlement for account receivables with the same carrying amount, details of which are set out in Note 19(i).

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 18.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

39. 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 2014	2013	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
Jiangsu Xingyu Environment Protection Company Limited* 江蘇興宇疏浚環保有限公司 (Formerly known as Jiangxu Province Lugang Construction Project Co. Ltd.* 江蘇省路港建設工程有限公司)	PRC 14 June 2004	RMB600,000,000	**100%**	100%	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%**	100%	Manufacturing of dredging machines	Wholly-owned foreign enterprise
Jiangsu Xingyu Holdings Group Limited* 江蘇興宇控股集團有限公司 ("PRC Operational Entity") *(note ii)* (Formerly known as Jiangsu Xingyu Port Construction Company Limited* 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
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$50,000,000	**100%**	100%	Provision of dredging services	Wholly-owned foreign enterprise

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

39. 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 2014	2013	Principal activities	Form of company
Jiangsu Xiangyu Water Management Company Limited* 江蘇翔宇水務有限公司	PRC 3 August 2011	US$62,700,000	**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
Jiangsu Fengyu Property Development Company Limited* 江蘇豐宇置業有限公司	PRC 4 December 2013	RMB66,000,000	**100%**	100%	Property development and investment	Limited liability
Jiangsu Xingyu Commercial Company Limited* 江蘇省興宇商務有限公司	PRC 16 April 2014	RMB10,000,000	**100%**	N/A	Inactive	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*

Notes:

(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 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, 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 is engaged in the provision of dredging services of the Group.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) **Consolidated structured entity (Continued)**

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.

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).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) **Consolidated structured entity (Continued)**

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.

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 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. 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 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 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 it to Xiangyu PRC.

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

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) **Consolidated structured entity (Continued)**

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.

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. However, due to the strategic importance of it to the Group, the directors of the Company intended to provide financing to the PRC Operational Entity to support the working capital requirements. As at 31 December 2014, the bank borrowings of the PRC Operational Entity of RMB389,466,000 (2013: RMB440,296,000) 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. Unutilised secured bank facilities amounted to approximately RMB270,830,000 (2013: RMB166,000,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) **Consolidated structured entity (Continued)**

Vessel Pledge Agreements (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 the PRC Operational Entity, rights to variable returns from its involvement with the PRC Operational Entity, 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 is accounted for as a consolidated structured entity as a subsidiary of the Company.

40. SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

The Group held 51% equity interest in Jiangsu Jiaolong at 31 December 2014 and 2013.

Name of subsidiary	Place of establishment 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	
		31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
				RMB'000	RMB'000	RMB'000	RMB'000
Jiangsu Jiaolong	PRC	49%	49%	16,055	16,525	150,783	134,728

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:

	2014	2013
	RMB'000	RMB'000
Current assets	**218,826**	165,627
Non-current assets	**339,153**	356,384
Current liabilities	**(99,770)**	(108,957)
Non-current liabilities	**(140,025)**	(131,774)
Equity attributable to owners of the Company	**167,401**	146,552
Non-controlling interests	**150,783**	134,728

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

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

	2014 RMB'000	2013 RMB'000
Revenue	**174,433**	168,668
Expense	**(137,106)**	(131,279)
Profit for the year and total comprehensive income for the year	**37,327**	37,389
Profit and total comprehensive income attributable to the owners of the Company	**21,272**	20,864
Profit and total comprehensive income attributable to the non-controlling interests	**16,055**	16,525
Profit and total comprehensive income for the year	**37,327**	37,389
Dividend paid to non-controlling interests	**Nil**	Nil
Net cash inflow (outflow) from operating activities	**38,982**	(7,657)
Net cash outflow from investing activities	**(233)**	(13,201)
Net cash (outflow) inflow from financing activities	**(31,467)**	19,701
Net cash inflow (outflow)	**7,282**	(1,157)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

41. EVENT AFTER THE REPORTING PERIOD

The Company entered into a placing agreement under which the Company appointed a placing agent to procure a placee to subscribe, on a best effort basis, for 171,120,000 shares of the Company at placing price of HK$1.38 per share. The placing was required to be made in two separate tranches in accordance with the placing agreement dated 29 January 2015.

The completion of the placing of the two tranches of 85,560,000 shares each took place on 30 January 2015 and 2 February 2015 respectively. The aggregate net proceeds from the placing was approximately HK$235.3 million (equivalent to approximately RMB185.9 million) for general working capital purpose of the Group.