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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 871

INTERIM REPORT 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Kaijin — Chief Executive Officer and Joint Chairman
Ms. Zhou Shuhua

Non-Executive Director

Mr. Liu Longhua — Joint Chairman

Independent Non-Executive Directors

Ms. Peng Cuihong
Mr. Huan Xuedong
Mr. Chan Ming Sun Jonathan

AUDIT COMMITTEE

Mr. Chan Ming Sun Jonathan — Chairman
Ms. Peng Cuihong
Mr. Huan Xuedong

REMUNERATION COMMITTEE

Ms. Peng Cuihong — Chairman
Mr. Liu Longhua
Mr. Chan Ming Sun Jonathan

NOMINATION COMMITTEE

Mr. Liu Longhua — Chairman
Ms. Peng Cuihong
Mr. Chan Ming Sun Jonathan

AUTHORISED REPRESENTATIVES

Mr. Liu Kaijin
Mr. Leung Kim Hung

COMPANY SECRETARY

Mr. Leung Kim Hung

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Rural Commercial Bank of Huanghai, Yancheng City, Jiangsu Province
Branch office of Agricultural Bank of China Limited
Jiangsu Changshu Rural Commercial Bank
Bank of Jiangsu, Yancheng Branch
China Construction Bank Asia Corporation
Shenzhen Development Bank (now known as Ping An Bank)
China Everbright Bank, Nanjing Branch

REGISTERED ADDRESS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS

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

Hong Kong

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

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

WEBSITE

www.xiangyu.com.hk

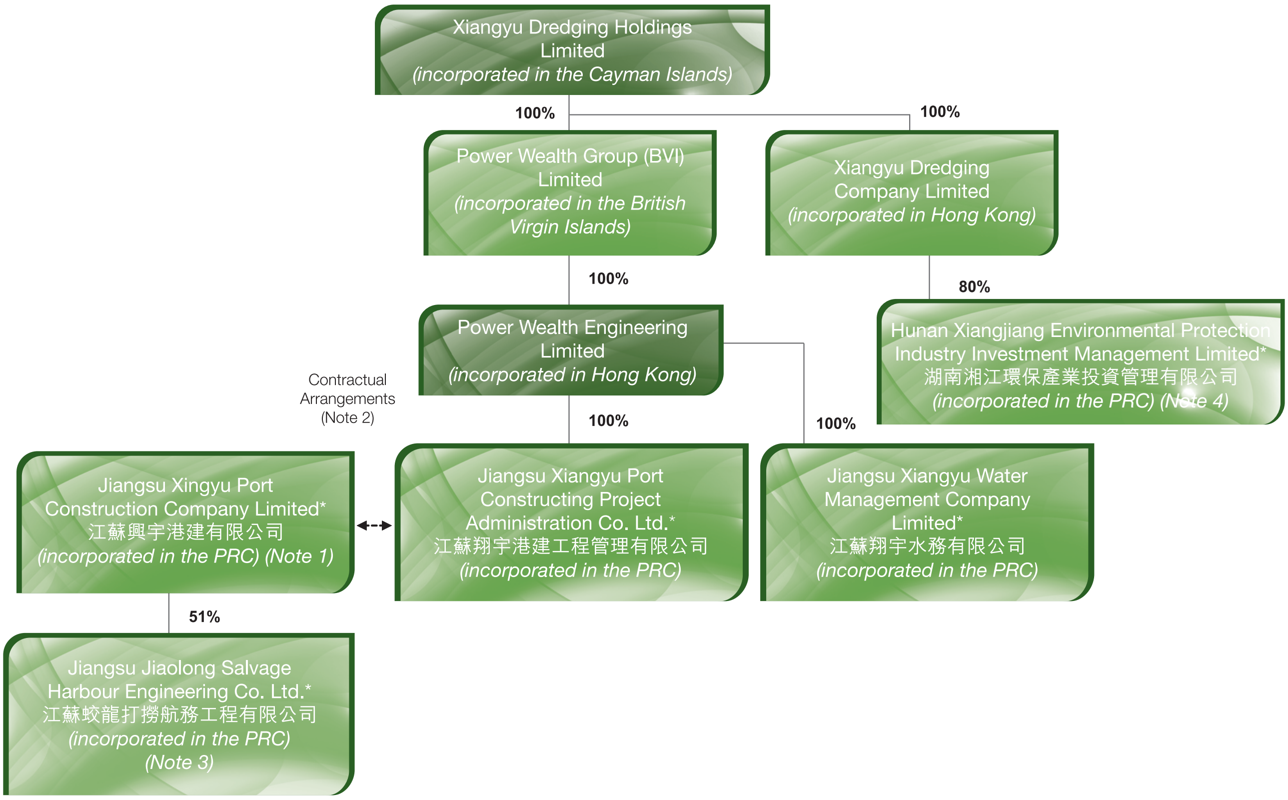
Definition

"Board"	the board of Directors
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules (as amended from time to time)
"Company"/"Xiangyu"	Xiangyu Dredging Holdings Limited
"Contractual Arrangements"	a series of contracts, details of which are set out in note 2 to the interim unaudited financial statements in this interim report, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries
"Jiangsu Jiaolong"	江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.*)
"Jiangsu Xingyu"/"PRC Operational Entity"	江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*)
"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
"Ms. Zhou"	Ms. Zhou Shuhua
"PRC"	the People's Republic of China
"RMB"	Renminbi
"SFO"	The Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
"Shareholder(s)"	shareholder(s) of the Company
"Share(s)"	share(s) of the Company
"Share Option Scheme"	the share option scheme approved by the Shareholders on 24 May 2011
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Wangji"	Wangji Limited, a company incorporated in the British Virgin Islands with limited liability
"Xiangyu PRC"	江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*)
"Xiangyu Water Management"	江蘇翔宇水務有限公司 (Jiangsu Xiangyu Water Management Company Limited*)

* *For identification purpose only*

Group Chart

The following sets out the group structure as at 30 June 2013:



Notes:

1. Jiangsu Xingyu is wholly owned by Mr. Liu and Ms. Zhou, and Ms. Zhou holds all her equity interest in Jiangsu Xingyu as trustee for Mr. Liu.

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

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

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

* *For identification purpose only*

BUSINESS REVIEW

During the period, the Company recorded a revenue of approximately RMB505.3 million, representing a year-on-year increase of 4.7%. During the period, the gross profit of the Company was approximately RMB193.2 million, representing a year-on-year increase of 7.4%. Profit attributable to the Shareholders was approximately RMB106.9 million.

In the first half of 2013, China's economy experienced a steady growth with a growth rate of 7.6% for the first half of the year. The dredging market continued to offer opportunities as well as presenting challenges. Following the recovery of the macro economy and the implementation of national policies for urbanization in the PRC in 2013, the capital and reclamation dredging market has begun to show signs of bottoming out. The Company has been able to tap the opportunities during the recovery of such traditional dredging market. Meanwhile, in view of the implementation of the environmental protection policies and planned investments in water conservancy projects contemplated in the "Twelfth Five-Year Plan", the Company has taken different initiatives to speed up the development of its environmental protection dredging and water management business including the preparation for massive production of the mechanical sludge dewatering system for environmental protection dredging (the "System"). Moreover, the dredging industry in certain countries in Southeast Asia is in similar industry cycle as that in the PRC which is expected to provide a lot of opportunities for the Company.

During the reporting period, the number of new orders gradually increased as the market condition of traditional dredging business was picking up momentum. Major projects secured by the Group during the period included a reclamation dredging project at Yancheng Coastal Harbour in Jiangsu Province, the PRC, a reclamation dredging project at Lianyun Harbour in Jiangsu Province, the PRC, and a reclamation dredging project at Huanghua Harbour in Hebei Province, the PRC. The Group also actively explored opportunities to extend its services to other geographical areas from northern China to southern China, as well as the overseas markets, and in particular in countries in the South-east Asia.

The prospect of the environmental protection dredging and water management business market remain promising with enormous development potential and market prospects. The Company had achieved successful results in phase one of the environmental protection project at Wuhan in Hubei Province, the PRC. Dedicated to maintain its leading position in the environmental protection dredging market, the Group has continued to increase its investment in its research and development of the System of which the registration of certain intellectual property rights has been granted. Meanwhile, the Group is prepared to commence its environmental protection dredging projects in Hunan Province, the PRC. In addition, the Group signed a contract for a new water management project of the value of about RMB276 million during the reporting period.

The strategic acquisition of Jiangsu Jiaolong in 2012 successfully brought in a new segment which has broadened the Group's customer base and reaped a good profit in the first half year of 2013. The Company believes that, being the leading company in the domestic salvage and hoisting industry, Jiangsu Jiaolong will continue to achieve a stable growth in the said market as well as generating a steady return to the Group.

FUTURE PROSPECTS

The management is fully confident that the prospect of the dredging industry is promising. Following the implementation of the Twelfth Five-Year Plan and a slow but steady global economic recovery, the port construction in the PRC has entered into a steady development stage and the demand for the reclamation dredging services is expected to have a moderate growth. As the water pollution problem in the PRC is getting aggravated that immediate treatment of polluted lakes and rivers (in particular removal of contaminated sediments) is badly in need, environmental protection dredging business is expected to have a significant growth in the coming years. While the Company will continue to maintain a steady growth in the Company's traditional dredging businesses, the Company will focus on increasing of its market share of the environmental protection dredging business in the coming years. In order to achieve this goal, the Company will strengthen its competitive edge through massive production of the System which is a highly efficient sludge dewatering system being used in the Company's Wuhan environmental protection dredging project with proven highly satisfactory result for the removal of contaminated sediments and the discharging clean processed water back into lakes and rivers.

The management believes that, as aforesaid, with the steady demand for traditional dredging services and the high growth potential of environmental protection dredging business in the coming years, the business strategy adopted by the Company will definitely improve the shareholders' value of the Company. Apart from pursuing the objective of profit making, the Board and the management are committed to do their best to bring good to the country and its people as a whole by providing effective services in respect of the treatment and recovery processes of polluted lakes and rivers.

FINANCIAL REVIEW

Overview

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

Revenue

During the period, the Group recorded a slight growth in revenue. Revenue for the six months ended 30 June 2013 was about RMB505.3 million, representing an increase of about 4.7% as compared with about RMB482.4 million in the corresponding period of 2012.

As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the six months ended 30 June 2013 were about RMB230.3 million and about RMB175.3 million which represented an increase of about 7.8% and an increase of about 21.9% respectively from the corresponding segments' revenue in the corresponding period of 2012. The increase in revenue from the CRD Business segment was primarily attributable to the increase in dredging volume completed as a result of the increase in demand for capital and reclamation dredging in the PRC. Revenue from EPD and Water Management Business segment increased in the first half of 2013 because of the revenue contributed by the environmental protection project in Wuhan and a new water management contract that commenced in early 2013.

FINANCIAL REVIEW (Continued)

Revenue (Continued)

During the period, the Group has obtained a new contract in the Dredging Related Construction Business. The revenue generated from the Dredging Related Construction Business during the six months ended 30 June 2013 was about RMB23.1 million which represented a decrease of about 62.5% as compared with about RMB61.6 million in the corresponding period of 2012. The decrease in revenue in this segment was due to our focus on CRD Business and EPD and Water Management Business, which enjoy higher gross profit margin.

Further, subsequent to the completion of the acquisition of Jiangsu Jiaolong in February 2012, the Group has expanded into a new business segment (namely, Other Marine Business) that contributed revenue of about RMB76.6 million to the Group for the six months ended 30 June 2013, which represented an increase of about 20.7% as compared with about RMB63.5 million in the corresponding period of 2012.

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

Operating cost and gross profit

The Group's operating cost increased from about RMB302.5 million for the six months ended 30 June 2012 to about RMB312.1 million for the six months ended 30 June 2013, representing an increase of about 3.1%. The increase in operating cost was in line with the increase in revenue. The Group recorded a gross profit of about RMB193.2 million for the six months ended 30 June 2013, representing an increase of 7.4% as compared with the six months ended 30 June 2012 of about RMB179.9 million.

The gross profit margin of CRD Business slightly dropped from about 44.5% for the six months ended 30 June 2012 to about 42.6% for the six months ended 30 June 2013, as a result of the diversification to new projects that required equipment not possessed by the Group, hence bringing about an increase in use of subcontractors. The Group's Dredging Related Construction Business, which principally includes ancillary construction work of capital and reclamation dredging services, is a segment that traditionally operated at relatively low but acceptable gross profit margin.

The gross profit margin of EPD and Water Management Business slightly increased from about 29.4% for the six months ended 30 June 2012 to about 30.9% for the six months ended 30 June 2013 as a result of the increase in the environmental protection dredging business which has a relatively higher gross profit margin. The gross profit margin of Other Marine Business maintained a high profit margin of about 45.0% for the six months ended 30 June 2012 and about 44.3% for the six months ended 30 June 2013.

As a result, the overall gross profit margin of the Group increased slightly from 37.3% for the six months ended 30 June 2012 to 38.2% for the six months ended 30 June 2013.

Other income

Other income decreased by about RMB4.5 million to about RMB12.5 million for the six months ended 30 June 2013 which was mainly due to the decrease in interest income in respect of non-current accounts receivable as a result of the settlement of certain non-current accounts receivable during the period.

FINANCIAL REVIEW (Continued)

Marketing and promotion expenses

Marketing and promotion expenses increased by about RMB3.5 million to about RMB6.9 million for the six months ended 30 June 2013 due to the increase in marketing activities in the period in order to expand the Group's customer bases.

Administrative expenses

Administrative expenses for the six months ended 30 June 2013 remained at a reasonable level which is in line with the corresponding period in 2012.

Finance costs

Finance costs increased by about RMB12.5 million to about RMB16.9 million for the six months ended 30 June 2013 due to the increase in bank borrowings.

Income tax expense

Due to the slight decrease in profit before tax, income tax expense for the six months ended 30 June 2013 amounted to about RMB42.7 million, representing a decrease of about RMB2.6 million compared with the corresponding period in 2012.

Profit for the period

As a combined effect of the above, the profit for the period decreased by about 3.9% from about RMB119.7 million for the six months ended 30 June 2012 to about RMB115.0 million for the six months ended 30 June 2013.

Earnings per share

Earnings per share decreased by about 7.2% from RMB0.14 per share to RMB0.13 per share due to the decrease in profit for the period.

Financial position, liquidity and financial resources

The Group has remained at a sound financial resource level. As at 30 June 2013, total equity of the Group amounted to about RMB1,661.0 million (31 December 2012: RMB1,543.9 million).

The Group's net current assets as at 30 June 2013 amounted to about RMB2.9 million (31 December 2012: RMB64.2 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2013 was 1.00 (31 December 2012: 1.07). The decreases in both the Group's net current assets and current ratio were mainly due to the increase in short term bank borrowings, the Group's consideration receivable due to the disposal of equity interests in 鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co., Ltd) ("Yongheng") (the consideration receivable therefrom will be settled by instalments in three years) and operation of built-and-transfer projects (the accounts receivables therefrom will be repayable by instalments in three years) which were mainly financed by the Group's own liquid funds and short term bank loans.

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 RMB and Hong Kong dollars.

FINANCIAL REVIEW (Continued)

Financial position, liquidity and financial resources (Continued)

Included in net current assets were cash and various bank deposits totalling about RMB144.0 million as at 30 June 2013, representing an increase of about RMB37.6 million as compared with about RMB106.4 million as at 31 December 2012.

Due to the improvement of settlement from the debtors, the Group's accounts and bills receivables as at 30 June 2013 decreased by about RMB90.3 million to about RMB895.8 million. 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 amount of overdue receivables as at 30 June 2013 did not significantly impair the Group's liquidity position as it has a positive operating cash flows before movements in working capital changes for the period.

On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor"), pursuant to which the Group agreed to acquire from the Debtor 95% equity interests in its subsidiary (the "TargetCo") and all shareholder's loan owing by the TargetCo for an aggregate consideration of about RMB288.3 million, subject to fulfillment of certain conditions precedent to completion. The only assets of the TargetCo are two pieces of land and the consideration for the said acquisition shall be settled by way of setting off against the receivable from the Debtor at the amount equivalent to the said consideration. At the same time, the Group also entered into another conditional agreement with the 5% minority equity interest owner of the TargetCo for acquiring of the remaining 5% equity interest at RMB0.4 million. Please refer to the Company's announcements dated 31 December 2012 and 2 January 2013 for further details.

On 22 March 2013, the Group entered into another 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 (and the same proportion of shareholder's loan) held by the Group in the TargetCo for a total consideration of approximately RMB253.0 million (the "3rd Agreement"), to be settled in the following manner:

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

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

(iii) 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.

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. Please refer to the Company's announcement dated 22 March 2013 for further details.

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

FINANCIAL REVIEW (Continued)

Financial position, liquidity and financial resources (Continued)

In order to minimise the risk of placing heavy reliance on entering into collaboration with government projects and to further diversify the overall credit risk, the Group has been widening its customer base to sizable PRC private enterprises since 2012.

Total liabilities of the Group as at 30 June 2013 were about RMB1,191.8 million (31 December 2012: RMB1,053.3 million). The increase mainly represented increase in bank loans of about RMB128.0 million, all of which are denominated in RMB and Hong Kong dollars and will mature within one year and all are at fixed interest rates. The Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to a level of 19.7% (2012: 16.7%), which the Board believes is at a healthy level.

Charge over assets of the Group

As at 30 June 2013, the Group's bank borrowings and credit facilities are secured by pledged bank deposits of about RMB34.2 million, charges over certain dredgers, accounts receivables and land owned by the Group, two parcels of land owned by Yongheng, a property owned by a company which Mr. Liu has beneficial interest, two properties owned by certain non-controlling shareholders of the Company's subsidiary; and personal guarantees by Mr. Liu and Ms. Zhou. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the Contractual Arrangements, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu have been transferred to Xiangyu PRC.

Financial 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 RMB, which is the Group's operating and reporting currencies, and save for certain bank balances in United States dollars and Hong Kong dollars, the impact of foreign exchange exposure to the Group was minimal and there was no significant adverse effect on normal operations during the reporting period. As at the end of each reporting period, no related hedge was made by the Group.

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

Material acquisitions and disposals

Apart from the framework agreement entered with a state-owned enterprise in respect of the incorporation of a joint venture for the purpose of securing environmental protection dredging projects in Hunan Province, the PRC as disclosed in the Company's announcement dated 21 October 2012 and the acquisition and subsequent disposal of equity interest of TargetCo as set out aforesaid under the paragraph headed "Financial Position, Liquidity and Financial Resources" , there was no other material acquisitions or disposals during the period under review.

FINANCIAL REVIEW (Continued)

Capital commitments and contingent liabilities

Apart from the capital commitment in respect of setting up of a joint venture as set out in the paragraph headed "Material Acquisitions and Disposals" above, the Group did not have significant capital commitments committed but not provided for as at 30 June 2013.

As at 30 June 2013, the Group did not have any material contingent liability (31 December 2012: nil).

EVENT AFTER END OF REPORTING PERIOD

On 31 July 2013, the Group entered into a finance lease arrangement with a PRC financial institution. Please refer to the Company's announcement dated 31 July 2013 and note 24 of the condensed consolidated financial statements of this interim report for further details.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2013, the Group had a workforce of 671 employees (31 December 2012: 606). Total staff cost for the six months ended 30 June 2013 was about RMB27.4 million (2012: RMB19.9 million). The Group's remuneration policy is basically determined by the performance of individual employees and the Directors and the market conditions. The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under the Share Option Scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules). The Group also provides on-going training to its employees.

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

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

As at 30 June 2013, the Directors and the Company's chief executive, and their respective associates had the following interests in the Shares in and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code, or were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO:

Interests in the Company

			Long position	
Name of Director	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Mr. Liu Kaijin	Interest in controlled corporation	1	325,100,000	40.64%
	Beneficial owner	1	6,242,000	0.78%
Ms. Zhou Shuhua	Interest in spouse	2	331,342,000	41.42%

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji, a company incorporated in the British Virgin Islands with limited liability, which is the direct owner of 325,100,000 Shares. Further, Mr. Liu is the beneficial owner of 6,242,000 Shares.

2. Mr. Liu's spouse is Ms. Zhou who is also a Director. By virtue of the SFO, Ms. Zhou is deemed to be interested in such 331,342,000 Shares.

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

Interests in associated corporations

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

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji. His 100% shareholding interest in Wangji has been charged in favour of Apex Ally Investments Limited and Hong Jun Investment Limited as stated under the section "Pre-IPO Investments" in the Company's prospectus dated 8 June 2011 which had subsequently been discharged completely in July 2013 as stated in the announcements of the Company dated 19 July 2013 and 29 July 2013 respectively. Mr. Liu is also the sole beneficial owner of the entire registered capital of Jiangsu Xingyu. Mr. Liu and Ms. Zhou are registered holders of 98.47% and 1.53% in the registered capital in Jiangsu Xingyu. The 1.53% interest in the registered capital of Jiangsu Xingyu were held on trust by Ms. Zhou for Mr. Liu pursuant to a shareholding confirmation dated 12 July 2010.

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

Saved as disclosed above, none of the Directors and chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation as at 30 June 2013 (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2013, other than the Directors' and the Chief Executive's interests and short positions in the Shares in and underlying shares of the Company and associated corporations as recorded in the register required to be kept under Section 336 of the SFO, to the best of the knowledge and belief of the Directors, the following substantial shareholders had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or otherwise notified to the Company and the Stock Exchange:

Interests in the Company

			Long position	
Name of Shareholder	**Capacity**	Notes	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Wangji	Beneficial owner		325,100,000	40.64%
Hu Zhongming	Beneficial owner		66,864,000	8.36%
Apex Ally Investments Limited ("Apex Ally")	Beneficial owner	1	45,900,000	5.74%
ICBC International Investment Management Limited ("ICBCI-IM")	Interest in controlled corporation	1	45,900,000	5.74%
ICBC International Holdings Limited ("ICBCI-H")	Interest in controlled corporations	1	45,900,000	5.74%
Industrial and Commercial Bank of China Limited ("ICBC")	Interest in controlled corporations	1	45,900,000	5.74%
Central Huijin Investment Ltd.	Interest in controlled corporations	2	66,900,000	8.36%

Notes:

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

2. ICBC is 35.4% owned by Central Huijin Investment Ltd. By virtue of the SFO, Central Huijin Investment Ltd. is deemed to be interested in the interests of the Company held by ICBC as stated in note 1 above.

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

Saved as disclosed above, as at 30 June 2013, no person (other than Directors and the Company's chief executive whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company and Associated Corporations" above) had interest or short position in the Shares or underlying shares of the Company and associated corporations that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

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

Details of the share options during the six months ended 30 June 2013 are as follows:

	Number of underlying shares (subject of the share options)							
Category of participant	**As at 1 January 2013**	**Granted during the period**	**Exercised, canceled or lapsed during the period**	**As at 30 June 2013**	**Date of Offer**	**Exercise period**	**Closing price immediately before the date of offer** (HK$ per Share)	**Exercise price*** (HK$ per Share)
Employees of the Group								
In aggregate	42,000,000	—	—	42,000,000	30 March 2012	19 April 2012 to 30 March 2014 (a)	2.04	2.192
Others								
In aggregate	12,000,000	—	—	12,000,000	30 March 2012	19 April 2012 to 30 March 2014 (b)	2.04	2.192
In aggregate	12,000,000	—	—	12,000,000	29 May 2012	18 June 2012 to 29 May 2014 (c)	1.85	1.920
Total	66,000,000	—	—	66,000,000				

(a) Immediately vested.

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

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

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

SHARE OPTION SCHEME (Continued)

As at 30 June 2013, the Company had outstanding options to subscribe for up to 66,000,000 Shares under the Share Option Scheme. There were no share options exercised, lapsed and cancelled during the six months ended 30 June 2013.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Stock Exchange made certain amendments ("Amendments") to the Listing Rules, which related to the CG Code, practices and reporting. Such revision took effect from 1 January 2012, 1 April 2012 or 31 December 2012 respectively.

The Company is committed to high standards of corporate governance. The Directors believe that the Company has complied with all the code provisions of the CG Code in Appendix 14 of the Listing Rules for the six months ended 30 June 2013 and there was no material deviation from the CG Code.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company has been set up in accordance with the Listing Rules. Members of the audit committee as at 30 June 2013 comprised Mr. Chan Ming Sun Jonathan (chairman), Ms. Peng Cuihong and Mr. Huan Xuedong, all of them are independent non-executive Directors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group, financial reporting matters including a review of the unaudited consolidated results for the six months ended 30 June 2013 prior to recommending them to the Board for approval.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

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

REMUNERATION COMMITTEE (Continued)

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

As at 30 June 2013, the remuneration committee comprised Ms. Peng Cuihong (chairman) and Mr. Chan Ming Sun Jonathan, both of whom are independent non-executive Directors, and Mr. Liu Longhua, a non-executive Director.

NOMINATION COMMITTEE

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

The principal responsibilities of the nomination committee include formulating nomination policy and making recommendations to the Board on nomination and appointment of Directors and Board succession, developing selection procedures for nomination of candidates, reviewing the size, structure and composition of the Board, as well as assessing the independence of the independent non-executive Directors.

As at 30 June 2013, the nomination committee comprised Mr. Liu Longhua (chairman), a non-executive Director, Mr. Chan Ming Sun Jonathan and Ms. Peng Cuihong, both of whom are independent non-executive Directors.

INTERIM DIVIDEND

The Directors have determined that no dividend would be paid in respect of the six months ended 30 June 2013 (2012: HK2 cents per share).

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

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conducts regarding Directors' securities dealings. Specific enquiries had been made to all Directors, who confirmed that they have compiled with the required standard set out in the Model Code for the six months ended 30 June 2013.

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF XIANGYU DREDGING HOLDINGS LIMITED
翔宇疏浚控股有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Xiangyu Dredging Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 50, which comprises the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 August 2013

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Revenue	5	**505,255**	482,437
Operating costs		**(312,058)**	(302,546)
Gross profit		**193,197**	179,891
Other income	6	**12,456**	16,917
Marketing and promotion expenses		**(6,945)**	(3,466)
Administrative expenses		**(24,093)**	(24,022)
Finance costs	7	**(16,873)**	(4,350)
Profit before tax		**157,742**	164,970
Income tax expense	8	**(42,698)**	(45,248)
Profit for the period and total comprehensive income for the period	9	**115,044**	119,722
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		**106,925**	112,043
Non-controlling interests		**8,119**	7,679
		115,044	119,722
Earnings per share	10		
— basic (RMB)		**0.13**	0.14
— diluted (RMB)		**0.13**	0.14

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,367,034	1,375,046
Prepaid land lease payments	12	91,594	92,800
Goodwill		201	201
Available-for-sale investment	13	19,034	—
Accounts and other receivables due after one year	14	290,320	109,463
		1,768,183	1,577,510
CURRENT ASSETS			
Prepaid land lease payments	12	2,410	2,410
Accounts and other receivables	14	938,148	910,867
Pledged bank deposits		34,208	76,017
Bank balances and cash		109,773	30,395
		1,084,539	1,019,689
CURRENT LIABILITIES			
Accounts and other payables	15	357,240	382,925
Amounts due to directors		4,468	7,732
Amounts due to non-controlling interests of a subsidiary		4,900	—
Tax payable		137,432	97,573
Bank borrowings	16	562,038	434,000
Other borrowings		15,520	33,236
		1,081,598	955,466
NET CURRENT ASSETS		2,941	64,223
TOTAL ASSETS LESS CURRENT LIABILITIES		1,771,124	1,641,733

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Note	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	17	67,200	67,200
Reserves		1,486,340	1,389,148
Equity attributable to owners of the Company		1,553,540	1,456,348
Non-controlling interests		107,428	87,527
TOTAL EQUITY		1,660,968	1,543,875
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		89,242	76,002
Deferred tax liabilities		20,914	21,856
		110,156	97,858
		1,771,124	1,641,733

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	PRC statutory reserve RMB'000 (note)	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
At 1 January 2012 (audited)	67,200	431,811	—	13,549	204,554	512,867	1,229,981	—	1,229,981
Profit for the period and total comprehensive income for the period (unaudited)	—	—	—	—	—	112,043	112,043	7,679	119,722
Recognition of equity-settled share-based payments (unaudited)	—	—	7,323	—	—	—	7,323	—	7,323
Acquisition of a subsidiary (Note 18) (unaudited)	—	—	—	—	—	—	—	103,306	103,306
At 30 June 2012 (unaudited)	67,200	431,811	7,323	13,549	204,554	624,910	1,349,347	110,985	1,460,332
At 1 January 2013 (audited)	67,200	418,851	9,156	13,549	235,230	712,362	1,456,348	87,527	1,543,875
Profit for the period and total comprehensive income for the period (unaudited)	—	—	—	—	—	106,925	106,925	8,119	115,044
Recognition of equity-settled share-based payments (unaudited)	—	—	2,049	—	—	—	2,049	—	2,049
Release of non-controlling interests share upon settlement of subscription consideration by the Group (Note 18(iii)) (unaudited)	—	—	—	—	(11,782)	—	(11,782)	11,782	—
At 30 June 2013 (unaudited)	67,200	418,851	11,205	13,549	223,448	819,287	1,553,540	107,428	1,660,968

note: 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		**216,231**	200,837
Increase in accounts and other receivables		**(222,286)**	(201,031)
(Decrease) increase in accounts and other payables		**(26,085)**	78,587
Cash (used in) generated from operations		**(32,140)**	78,393
PRC income tax paid		**(3,781)**	(38,850)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(35,921)**	39,543
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(46,050)**	(40,215)
Pledged bank deposits withdrawn (placed)		**41,809**	(62,000)
Consideration received from Hongji Construction	13	**10,000**	—
Interest received		**1,215**	1,015
Purchase of leasehold land		**—**	(89,415)
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	18	**—**	(17,092)
Proceeds from disposals of property, plant and equipment		**—**	65
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**6,974**	(207,642)
FINANCING ACTIVITIES			
New bank borrowings raised		**412,038**	199,000
Advance from independent third parties		**248,020**	—
Advance from directors		**27,255**	283,108
Advance from non-controlling interests of a subsidiary		**11,109**	—
New other borrowings raised		**4,275**	290
Repayment of bank borrowings		**(284,000)**	(27,995)
Repayment to independent third parties		**(248,020)**	—
Repayment to directors		**(30,519)**	(330,561)
Interest paid		**(16,873)**	(4,350)
Repayment of other borrowings		**(9,631)**	—
Repayment to non-controlling interests of a subsidiary		**(5,329)**	(4,619)
NET CASH FROM FINANCING ACTIVITIES		**108,325**	114,873
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**79,378**	(53,226)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**30,395**	125,788
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**109,773**	72,562

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

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

On 19 April 2011, 江蘇翔宇港建工程管理有限公司 Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.* ("Xiangyu PRC"), 江蘇興宇港建有限公司 Jiangsu Xingyu Port Construction Company Limited* ("PRC Operational Entity") and its respective equity participants, being Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements") with the following key provisions:

(i) 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 (iv) 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;

* *for identification only*

1. BASIS OF PREPARATION (Continued)

(i) Option Agreement (Continued)

(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).

(ii) 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 as if Xiangyu PRC and hence the Group was the ultimate beneficial owner of PRC Operational Entity by virtue of the Proxy Agreement.

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

1. BASIS OF PREPARATION (Continued)

(iii) 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.

(iv) 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.

1. BASIS OF PREPARATION (Continued)

(iv) Equity Pledge Agreement (Continued)

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

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

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

Accordingly, PRC Operational Entity is accounted for as a subsidiary of the Company. The assets, liabilities, results and cash flows of PRC Operational Entity are included in the condensed consolidated financial statements of the Group as if the Company had always been the parent of PRC Operational Entity.

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2013, the Group has net current assets of approximately RMB2.9 million. While the Group has bank borrowings of approximately RMB562.0 million and other liabilities of approximately RMB519.6 million payable within one year from the end of the reporting period, its aggregate bank balances and cash is only approximately RMB109.8 million as at 30 June 2013. In view of the above, the Directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the reporting period; (ii) all the bank borrowings as at 30 June 2013 were secured by the Group's assets and are therefore highly probable that they can be renewed upon maturity in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB165 million as at 30 June 2013 which will not mature in the next twelve months.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, which are applicable upon new transactions that occurred in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2012.

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated its equity interest in a private entity as AFS financial assets on initial recognition of those items.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

In the current interim period, the Group has applied, for the first time, certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in Note 3 to the condensed consolidated financial statements, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated allowance for 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 an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required. No allowance for accounts and other receivables were provided for both periods.

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

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

Estimated impairment of property , plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. There was no impairment of property, plant and equipment for both periods.

5. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive Directors who are also the chief operating decision makers that make strategic decisions. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group. Details of the Group's four reportable segments during both periods are as follows:

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

(ii) Environmental Protection Dredging and Water Management Business refers to dredging or water management services or constructions for promoting environmental interests and water quality mainly for inland rivers and lakes 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.

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

Segment results

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

	Capital and Reclamation Dredging Business RMB'000 (Unaudited)	Environmental Protection Dredging and Water Management Business RMB'000 (Unaudited)	Dredging Related Construction Business RMB'000 (Unaudited)	Other Marine Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2013					
Segment revenue	230,280	175,252	23,124	76,599	505,255
Segment results	98,011	54,183	7,086	23,199	182,479
Other income					12,302
Unallocated corporate expenses					(22,255)
Finance costs					(14,784)
Group's profit before tax					157,742
Other information:					
Depreciation of property, plant and equipment	25,766	1,325	—	12,185	

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment results (Continued)

	Capital and Reclamation Dredging Business RMB'000 (Unaudited)	Environmental Protection Dredging and Water Management Business RMB'000 (Unaudited)	Dredging Related Construction Business RMB'000 (Unaudited)	Other Marine Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2012					
Segment revenue	213,570	143,793	61,590	63,484	482,437
Segment results	95,144	42,299	13,910	23,030	174,383
Other income					16,827
Unallocated corporate expenses					(23,380)
Finance costs					(2,860)
Group's profit before tax					164,970
Other information:					
Depreciation of property, plant and equipment	9,791	—	—	6,617	

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

Segment results, other than those derived from Other Marine Business, represent the gross profit earned by each segment without allocation of central administrative expenses, marketing and promotion expenses, other income and finance costs. For Other Marine Business, the segment result represents profit before tax earned by that segment. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment.

5. 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 30 June 2013 (Unaudited)					
Segment assets	1,394,723	392,053	73,745	468,145	2,328,666
Unallocated assets:					
Prepaid land lease payments					94,004
Pledged bank deposits					34,208
Available-for-sale investment					19,034
Consideration receivable (included in accounts and other receivables)					242,968
Bank balances and cash					109,773
Shareholder's loan to Yongheng (included in accounts and other receivables)					16,691
Others					7,378
Consolidated assets					2,852,722

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets (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
At 31 December 2012 (Audited)					
Segment assets	1,513,250	402,654	16,857	458,754	2,391,515
Unallocated assets:					
Prepaid land lease payments					95,210
Pledged bank deposits					76,017
Bank balances and cash					30,395
Others					4,062
Consolidated assets					2,597,199

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

6. OTHER INCOME

	Six months ended 30 June 2013 RMB'000 (Unaudited)	Six months ended 30 June 2012 RMB'000 (Unaudited)
Government financial incentive (note)	9,158	9,547
Bank interest income	1,215	1,015
Interest income in respect of non-current accounts receivables (Note 14)	1,999	6,275
Sundry income	84	80
	12,456	16,917

6. OTHER INCOME (Continued)

note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was to be granted financial incentive for the period up to 31 December 2015 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 has further confirmed that the amount of such financial incentive the Group was entitled for the six months ended 30 June 2013 was RMB9,158,000 (six months ended 30 June 2012: RMB9,547,000). Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2013 and 2012, respectively.

7. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on:		
Bank borrowings wholly repayable within five years	15,703	4,344
Discounted bills	677	6
Other borrowings	493	—
	16,873	4,350

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	43,640	46,097
Deferred taxation	(942)	(849)
	42,698	45,248

8. INCOME TAX EXPENSE (Continued)

notes:

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

(ii) **Hong Kong Profits Tax**
Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods, if any.

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

9. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	39,276	25,255
Net foreign exchange gain	(82)	(652)
Share-based payment expense (Note 20)	2,049	7,323
Gain on disposals of property, plant and equipment	—	(46)
Sub-contracting charges included in operating costs	160,915	133,776

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**106,925**	112,043
	'000	'000
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	**800,000**	800,000

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

The computation of diluted earnings per share for both periods does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price of shares.

11. DIVIDENDS

The Directors have determined that no interim dividend will be paid in respect of the six months ended 30 June 2013.

Subsequent to 30 June 2012, the Directors determined that an interim dividend of HK2 cents per share with an aggregate amount of HK$16,000,000 (equivalent to approximately RMB12,960,000) would be paid in respect of the six months ended 30 June 2012.

No final dividend for the year ended 31 December 2011 and 2012 was declared and paid in both periods.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/PREPAID LAND LEASE PAYMENTS

During the current reporting period, the Group acquired property, plant and equipment and leasehold land of approximately RMB46,050,000 and nil respectively (2012: RMB43,599,000 and RMB96,415,000 respectively). In addition, during the six months ended 30 June 2012, property, plant and equipment of approximately RMB327,226,000 were acquired through the acquisition of a subsidiary (see Note 18).

13. AVAILABLE-FOR-SALE INVESTMENT

On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer to the Group its (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 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.

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

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

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

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

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

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

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

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

13. AVAILABLE-FOR-SALE INVESTMENT (Continued)

The 1st Agreement, the 2nd Agreement and the 3rd Agreement were completed on 2 April 2013, 2 April 2013 and 28 April 2013, respectively. The completion of the 3rd Agreement 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 15% equity interest in Yongheng is classified as an AFS investment. This investment of RMB19,034,000 as at 30 June 2013 is measured at cost less impairment and is calculated with reference to the adjusted net assets value of Yongheng at the acquisition date.

14. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
Non-current:		
Accounts receivables (notes (i) & (ii))	140,661	109,463
Value-added tax recoverable (note (iv))	10,000	—
Shareholder's loan to Yongheng (note (v))	16,691	—
Consideration receivable (Note 13)	122,968	—
	290,320	109,463
Current:		
Accounts receivables (note (i))	754,995	860,041
Bills receivable (note (iii))	180	16,650
Value-added tax recoverable (note (iv))	5,238	—
Retention receivables	2,054	2,206
Deposits and prepayments	22,172	13,131
Government financial incentive receivables (Note 6)	26,263	17,105
Consideration receivable (Note 13)	120,000	—
Others	7,246	1,734
	938,148	910,867
	1,228,468	1,020,330

14. ACCOUNTS AND OTHER RECEIVABLES (Continued)

notes:

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

The Group prepares an aged analysis for its accounts receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Periodic statements are issued and agreed by the customers for the work performed and services rendered for the customers. Most of the contracts require the customers to make monthly progress payments with reference to the value of work completed (typically 55% to 80% 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 (20% to 45% of the value of work completed) is to be paid by the customers within thirty to sixty days after the project is completed and accepted by the customers and the customers receive payment from the project owners.

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

Aged analysis of the Group's accounts receivables

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
0–30 days	227,775	178,617
31–60 days	58,503	74,380
61–90 days	41,761	64,669
91–180 days	127,663	109,332
Over 180 days	439,954	542,506
	895,656	969,504

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

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

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
0–30 days	47,766	69,812
31–60 days	34,177	61,185
61–90 days	51,746	20,832
91–180 days	64,556	36,071
Over 180 days	299,133	325,254
	497,378	513,154

14. ACCOUNTS AND OTHER RECEIVABLES (Continued)

notes: (Continued)

(i) (Continued)

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

(ii) Non-current accounts receivables represent amounts due from several customers for construction work, the contracts for which include clauses for extended payment terms beyond one year.

Interest is charged in respect of such non-current accounts receivable balance at a rate of 10% per annum. During the six months ended 30 June 2013, interest income of about RMB1,999,000 (2012: RMB6,275,000) was recognised.

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

Aged analysis of the Group's bills receivable

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
0–30 days	—	5,000
31–60 days	—	800
61–90 days	180	5,200
91–180 days	—	5,650
	180	16,650

(iv) As at 30 June 2013, an amount of RMB15,238,000 (31 December 2012: nil) value-added tax paid by the Group in connection with its purchase of plant and machinery and dredger in relation to Other Marine Business could be used to set-off against future value-added tax payable in relation to revenue generated from Other Marine Business. The Group has estimated that the value-added tax payable for the twelve months ending 30 June 2014 is approximately RMB5,238,000. Accordingly, the remaining value-added tax recoverable of RMB10,000,000 is not expected to be recovered within one year from the end of the reporting period and is classified as non-current.

(v) The amount is unsecured, interest-free and has no fixed repayment terms.

15. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
Accounts payables:		
Subcontracting charge	171,855	145,891
Chartering cost	770	2,120
Fuel cost	37,121	30,589
Repair and maintenance	16,253	16,862
Others	8,292	19,030
	234,291	214,492
Bills payable	34,101	84,000
Other payables:		
Accrued other taxes	57,729	52,038
Accrued staff salaries and welfare	15,596	19,379
Receipts in advance	4,796	3,493
Others	10,727	9,523
	88,848	84,433
	357,240	382,925

15. ACCOUNTS AND OTHER PAYABLES (Continued)

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

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
0–30 days	**101,507**	158,787
31–60 days	**13,774**	13,930
61–90 days	**11,994**	9,056
91–180 days	**24,737**	4,806
Over 180 days	**82,279**	27,913
	234,291	214,492

16. BANK BORROWINGS

During the current reporting period, the Group raised bank loans of RMB412,038,000 (2012: RMB199,000,000). During the six months ended 30 June 2012, the Group's bank borrowings were also increased by RMB57,995,000 through acquisition of a subsidiary (see Note 18). As at 30 June 2013, the Group's bank borrowings mainly carried interest at fixed rates ranging from 1.5% to 7.8% (31 December 2012: 6.00% to 8.53%) per annum.

17. SHARE CAPITAL

	Number of shares	**Amount** HK$'000	**RMB equivalent amount** RMB'000
Ordinary shares of HK$0.10 each			
Authorised			
At 1 January 2012, 30 June 2012, 31 December 2012 and 30 June 2013	10,000,000,000	1,000,000	N/A
Issued and fully paid			
At 1 January 2012, 30 June 2012, 31 December 2012 and 30 June 2013	800,000,000	80,000	67,200

18. ACQUISITION OF A SUBSIDIARY

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

	Notes	RMB'000
Consideration transferred	(i)	
Cash consideration paid upon completion		9,789
Consideration payable to Vendor Shareholders (defined below)		17,711
Subscription consideration	(i)	80,224
		107,724
Net assets acquired		
Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:		
Property, plant and equipment (Note 12)		327,226
Accounts and other receivables	(ii)	28,835
Pledged bank deposits		3,000
Bank overdraft		(7,303)
Tax recoverable		672
Accounts and other payables		(40,656)
Deferred tax liabilities		(23,676)
Amounts due to non-controlling interests		(57,420)
Amount due to the PRC Operational Entity (as prepaid consideration)		(10,000)
Other borrowings		(32,078)
Bank borrowings		(57,995)
		130,605
Subscription consideration	(i)	80,224
		210,829
Less: Non-controlling interests	(iii)	(103,306)
Net assets acquired		107,523
Goodwill arising on Acquisition	(iv)	201

* *For identification only*

18. ACQUISITION OF A SUBSIDIARY (Continued)

Net cash outflow arising on Acquisition:

	RMB'000
Cash consideration paid	9,789
Add: Bank overdraft	7,303
	17,092

notes:

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

By 30 June 2013, the Existing Equity Consideration was partially settled to the extent of RMB11,441,000 (31 December 2012: RMB9,789,000) and the remaining consideration payable to Vendor Shareholders of RMB16,059,000 (31 December 2012: RMB17,711,000) was included in amounts due to non-controlling interests of a subsidiary as at 30 June 2013.

No interest is charged on the Subscription Consideration. An amount of RMB56,402,000 of the Subscription Consideration was settled prior to 31 December 2012 and an amount of RMB9,769,000 that was due to be settled by 31 December 2012 remained unsettled as at that date and was expected to be settled in 2013 and 2014 according to the repayment schedule and was not discounted due to insignificant impact. During the six months ended 30 June 2013, RMB9,150,000 of the outstanding balance was settled. The balance of the Subscription Consideration has been accounted for as deferred consideration and discounted to its net present value of RMB14,672,000 (31 December 2012: RMB14,053,000) using a discount rate of 12% per annum in accordance with the agreed timing of the cash flows as set out in the agreement.

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

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

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

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

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

In the opinion of the Directors, after considering the actual results of Jiangsu Jiaolong as at 30 June 2013 and based on a review of the profit projection of Jiangsu Jiaolong, the Directors have concluded that the fair value of the Profit Shortfall is considered as insignificant at the date of the Acquisition and as at 31 December 2012 and 30 June 2013 because the chance that the Vendor Shareholders will need to compensate the Group due to actual profit being less than the Guaranteed Profit is very low.

19. CAPITAL COMMITMENTS

	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
Capital commitments contracted but not provided for relating to the followings:		
— Investment in a non-wholly owned subsidiary (note)	39,000	39,000

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.

In February 2013, a sino-foreign joint venture was incorporated in Hunan Province. No capital was paid up as at the date these condensed consolidated financial statements are approved by the Directors.

20. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

20. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

The movements of the share options granted under the Share Option Scheme during the period is as follows:

					Number of shares in respect of the share options						
Category	Date of grant	Vesting period	Exercise price HK$	Exercisable period	Outstanding at 1 January 2012	Granted during the year	Exercised, cancelled or lapsed during the year	Outstanding at 31 December 2012 and 1 January 2013	Granted during the period	Exercised, cancelled or lapsed during the period	Outstanding at 30 June 2013
Employees	30 March 2012	immediate vesting	2.192	19 April 2012 to 30 March 2014	–	42,000,000	–	42,000,000	–	–	42,000,000
Others (note)	30 March 2012	19 April 2012 to 19 April 2013	2.192	19 April 2012 to 30 March 2014	–	12,000,000	–	12,000,000	–	–	12,000,000
Others (note)	29 May 2012	18 June 2012 to 18 June 2013	1.920	18 June 2012 to 29 May 2014	–	26,000,000	(14,000,000)	12,000,000	–	–	12,000,000
					–	80,000,000	(14,000,000)	66,000,000	–	–	66,000,000
Exercisable at the end of the reporting period					–			42,000,000			66,000,000
Weighted average exercise price per share					–	HK$2.10	HK$1.92	HK$2.14	–	–	HK$2.14

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

The aggregate fair value of the above share options granted determined at the dates of grant using the Binomial Option Pricing model was HK$13,833,000 (RMB11,205,000), of which an amount of RMB2,049,000 (2012: RMB7,323,000) was recognised as a share-based payment expense for the current interim period.

21. MAJOR NON-CASH TRANSACTIONS

During the current reporting period, other borrowings of the Group in an aggregate amount of RMB12,360,000 were assigned by the creditors to certain non-controlling shareholders of a subsidiary.

During the current reporting period, in lieu of settlement for trade debts of RMB288,293,000, the Group entered into the 1st Agreement, 2nd Agreement and 3rd Agreement, details of which are set out in Note 13.

During the six months ended 30 June 2012, the Group acquired leasehold land at a consideration of RMB96,415,000 of which an amount of RMB7,000,000 was paid by a Director on behalf of the Group.

22. PLEDGE OF ASSETS

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

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Dredgers included in property, plant and equipment	816,786	758,579
Prepaid land lease payments	94,004	95,210
Pledged bank deposits	34,208	76,017
Accounts receivables	16,668	—
	961,666	929,806

23. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the current reporting period, the Group paid rentals of RMB46,000 (2012: RMB46,000) to certain companies controlled by Mr. Liu in respect of office premises.

During the six months ended 30 June 2012, Mr. Liu paid approximately RMB7,000,000 (2013: nil) on behalf of the Group in respect of acquisition of prepaid land lease payments.

In addition, the Group received advances from, and made repayments to, Mr. Liu during the periods ended 30 June 2013 and 2012. As at 30 June 2013, the amount due to Mr. Liu is RMB3,050,000 (31 December 2012: RMB6,682,000).

23. RELATED PARTY DISCLOSURES (Continued)

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

As at 30 June 2013 and 31 December 2012, other than the pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

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

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

In addition, as at 30 June 2013, the Group's bank borrowings to the extent of HK$124,256,000 (equivalent to RMB98,038,000) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by two parcels of land owned by Yongheng. Another bank borrowings of the Group of RMB14,000,000 was supported by a property owned by a company in which Mr. Liu has beneficial interest.

(III) Compensation of key management personnel

Details of the emoluments paid or payable to the Company's directors and the chief executive during the period are as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	3,170	3,434
Post-employment benefits	7	—
Other long-term benefits	—	—
Share-based payments	—	—
	3,177	3,434

24. EVENT AFTER THE REPORTING PERIOD

As disclosed in by the Company's announcement on 31 July 2013, the Group had on the same date entered into a sale and lease back agreement (the "Agreement") with a PRC financial institution ("Financial Institution") whereby in essence the Group would obtain financing of RMB85 million from the Financial Institution 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 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.

When the above financing of RMB85 million is drawn by the Group, it would be recognised as an obligation under finance lease. 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 value.

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