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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 871)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS

The board (the "Board") of directors (the "Director(s)") of China Dredging Environment Protection Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 (the "Reporting Period"), together with the unaudited comparative figures for the six months ended 30 June 2015 as follows, which are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and are presented in Renminbi ("RMB"):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**346,187**	395,886
Operating costs		**(227,362)**	(262,572)
Gross profit		**118,825**	133,314
Other income		**17,480**	19,641
Other gains and losses		**24,886**	6,590
Marketing and promotion expenses		**(5,679)**	(3,356)
Administrative expenses		**(26,437)**	(18,323)
Finance costs		**(35,619)**	(38,271)

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit before tax		**93,456**	99,595
Income tax expense	*5*	**(28,867)**	(27,008)
Profit and total comprehensive income for the period	*6*	**64,589**	72,587
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**62,040**	68,577
Non-controlling interests		**2,549**	4,010
		64,589	72,587
Earnings per share	*7*		
— basic (RMB cents)		**5.0**	6.9
— diluted (RMB cents)		**5.0**	6.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,614,922**	1,658,604
Prepaid land lease payments		**99,377**	100,773
Investment properties		**334,462**	—
Investment properties under construction		**—**	307,702
Goodwill		**201**	2,956
Other intangible asset		**4,917**	—
Available-for-sale investment		**6,000**	20,921
Deposit paid for acquisition of property, plant and equipment		**78,769**	79,377
Deferred tax assets		**100,354**	100,354
Accounts and other receivables due after one year	*8*	**103,262**	206,442
Pledged bank deposits		**15,000**	15,000
		2,357,264	2,492,129
CURRENT ASSETS			
Prepaid land lease payments		**2,908**	2,908
Accounts and other receivables and prepayments	*8*	**1,233,202**	1,180,985
Pledged bank deposits		**100,000**	47,572
Bank balances and cash		**125,696**	153,569
		1,461,806	1,385,034
CURRENT LIABILITIES			
Accounts and other payables	*9*	**443,442**	497,670
Amounts due to directors		**20,081**	19,098
Amounts due to non-controlling interests of a subsidiary		**6,100**	1,644
Tax payable		**135,364**	112,827
Bank borrowings	*10*	**635,856**	716,405
Other borrowings		**1,489**	495
Convertible bonds		**268,625**	246,510
Derivative financial liabilities embedded in convertible bonds		**508**	7,030
		1,511,465	1,601,679
NET CURRENT LIABILITIES		**(49,659)**	(216,645)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,307,605**	2,275,484

	Notes	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital		**102,045**	102,045
Reserves		**1,925,525**	1,863,236
Equity attributable to owners of the Company		**2,027,570**	1,965,281
Non-controlling interests		**156,229**	158,136
TOTAL EQUITY		**2,183,799**	2,123,417
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**70,212**	85,533
Deferred tax liabilities		**15,201**	16,046
Bank borrowings	*10*	**5,740**	18,195
Other borrowings		**32,653**	32,293
		123,806	152,067
		2,307,605	2,275,484

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2016

1. BASIS OF PREPARATION

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

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

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Group has net current liabilities of approximately RMB49.7 million. The Directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the Reporting Period; (ii) most of the bank borrowings as at 30 June 2016 were secured by the Group's assets and are therefore highly probable that they can be renewed in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB303.7 million as at 30 June 2016 which will be available in the next twelve months.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the Reporting Period are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2015.

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

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

4. 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 ("CODM") that are used to make strategic decisions. Information reported to the CODM is based on the different nature of projects carried out by the Group. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

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

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

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

(iv) Property Management Business refers to the management of leasing of a shopping mall constructed by the Group.

The Group started to construct a shopping mall in the PRC for earning rental income during the year ended 31 December 2015 and the construction was completed during the period ended 30 June 2016. Since then, the CODM reviews the financial performance of the property management business as a separate business. Accordingly, results from these businesses are presented as operating and reportable segments.

Segment results

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

	Capital and Reclamation Dredging Business *RMB'000* **(Unaudited)**	**Environmental Protection Dredging and Water Management Business** *RMB'000* **(Unaudited)**	**Other Marine Business** *RMB'000* **(Unaudited)**	**Property Management Business** *RMB'000* **(Unaudited)**	**Total** *RMB'000* **(Unaudited)**
Six months ended 30 June 2016					
Segment revenue	**183,705**	**82,827**	**77,956**	**1,699**	**346,187**
Segment results	**74,552**	**24,794**	**6,926**	**(2,623)**	**103,649**
Unallocated other income					**17,434**
Other gains and losses					**24,886**
Unallocated corporate expenses					**(20,358)**
Unallocated finance costs					**(32,155)**
Group's profit before tax					**93,456**

	Capital and Reclamation Dredging Business *RMB'000* (Unaudited)	Environmental Protection Dredging and Water Management Business *RMB'000* (Unaudited)	Other Marine Business *RMB'000* (Unaudited)	Property Management Business *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Six months ended 30 June 2015					
Segment revenue	220,190	103,517	72,179	—	395,886
Segment results	83,422	30,923	10,959	—	125,304
Unallocated other income					18,972
Other gains and losses					6,590
Unallocated corporate expenses					(15,037)
Unallocated finance costs					(36,234)
Group's profit before tax					99,595

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

Segment results represent profit earned by each segment, without allocation of central administrative expenses, other gains and losses, certain other income and certain finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**29,712**	27,866
Deferred taxation	**(845)**	(858)
	28,867	27,008

(i) PRC EIT

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

(ii) Hong Kong Profits Tax

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

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

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**49,802**	50,158
Depreciation of investment properties	**2,366**	—
Amortisation of other intangible asset	**83**	—
Net foreign exchange loss (gain)	**5,931**	(2,056)
Sub-contracting charges included in operating costs	**89,813**	114,905

7. 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	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**62,040**	68,577
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,232,064**	996,939

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

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

The computation of diluted earnings per share for previous period did not assume the exercise of the outstanding warrants since the exercise price of the warrants was higher than the average market price of the shares during that period. The outstanding warrants were lapsed during the Reporting Period.

8. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2016 *RMB'000* (Unaudited)	At 31 December 2015 *RMB'000* (Audited)
Non-current:		
Accounts receivables	**101,499**	184,933
Value-added tax recoverable	**1,763**	1,705
Shareholder's loan to Yongheng	**—**	14,804
Others	**—**	5,000
	103,262	206,442
Current:		
Accounts receivables	**1,126,178**	936,591
Bills receivable	**9,020**	11,845
Government financial incentive receivables	**27,871**	21,168
Deposits and prepayments	**53,722**	31,828
Value-added tax recoverable	**2,067**	5,190
Consideration receivable from Hongji Construction	**—**	70,774
Loan receivables	**—**	95,000
Others	**14,344**	8,589
	1,233,202	1,180,985
	1,336,464	1,387,427

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

Aged analysis of the Group's accounts receivables

	At 30 June 2016 ***RMB'000*** **(Unaudited)**	At 31 December 2015 *RMB'000* (Audited)
0–30 days	**124,168**	139,071
31–60 days	**46,214**	39,044
61–90 days	**32,137**	43,225
91–180 days	**68,491**	117,006
181–365 days	**357,028**	385,008
1 year–2 years	**427,685**	259,986
Over 2 years	**171,954**	138,184
	1,227,677	1,121,524

Included in the accounts receivables balance is retention money of approximately RMB166,172,000 (31 December 2015: RMB155,000,000) as at 30 June 2016.

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

Aged analysis of the Group's bills receivable

	At 30 June 2016 ***RMB'000*** **(Unaudited)**	At 31 December 2015 *RMB'000* (Audited)
61–90 days	**4,000**	3,051
91–180 days	**5,020**	8,794
	9,020	11,845

9. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Accounts payables		
Sub-contracting charge	**146,632**	178,635
Fuel cost	**26,672**	34,071
Repair and maintenance	**15,027**	12,100
Others	**4,805**	4,970
	193,136	229,776
Bills payable	**5,000**	7,572
Other payables		
Payable for property, plant and equipment	**19,639**	24,659
Payable for investment properties/investment properties under construction	**64,797**	69,863
Accrued other taxes	**104,006**	100,192
Accrued staff salaries and welfare	**13,444**	22,405
Receipts in advance	**29,009**	5,550
Rental deposits received	**1,585**	—
Interest on convertible bonds due within one year	**3,068**	5,856
Others	**9,758**	31,797
	245,306	260,322
	443,422	497,670

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

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
0–30 days	**55,179**	56,848
31–60 days	**10,910**	5,786
61–90 days	**8,227**	13,381
91–180 days	**18,136**	15,809
Over 180 days	**100,684**	137,952
	193,136	229,776

10. BANK BORROWINGS

During the Reporting Period, the Group raised bank loans of RMB335,288,000 (six months ended 30 June 2015: RMB320,862,000) and repaid bank loans of RMB428,292,000 (six months ended 30 June 2015: RMB246,394,000). As at 30 June 2016, the effective interest rates of the bank borrowings ranged from 2.0% to 7.8% (31 December 2015: 2.0% to 7.8%) per annum.

11. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the Reporting Period, the Group paid rentals of RMB48,000 (six months ended 30 June 2015: RMB48,000) to certain companies controlled by Mr. Liu Kaijin ("Mr. Liu"), the chief executive officer, joint chairman and the ultimate controlling shareholder of the Company, in respect of office premises.

In addition, the Group received other advances from, and made repayments to, Mr. Liu during the six months ended 30 June 2016 and 2015. As at 30 June 2016, the amount due to Mr. Liu was RMB18,674,000 (31 December 2015: RMB17,806,000).

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

As at 30 June 2016 and 31 December 2015, other than pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

(b) personal guarantees provided by Mr. Liu and Ms. Zhou Shuhua, a director of the Company; and

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

In addition, as at 30 June 2016, the Group's bank borrowings to the extent of RMB133.0 million (31 December 2015: RMB9.8 million) was partially supported by a property owned by a company in which Mr. Liu has beneficial interest.

(iii) Compensation of key management personnel

Details of the emoluments paid or payable to the Directors and the chief executive of the Company during each period are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**1,050**	1,270
Post-employment benefits	**—**	6
	1,050	1,276

INTERIM DIVIDEND

The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is primarily engaged in dredging business, which can be divided into three main operating and reportable segments, namely, (i) capital and reclamation dredging business ("CRD Business"); (ii) environmental protection dredging ("EPD") and water management business ("EPD and Water Management Business"); and (iii) other works operated in marine sites such as salvage and hoisting works ("Other Marine Business"). In addition, the Group also commenced property management business (the "Property Management Business") in respect of the management of 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*) during the Reporting Period.

Business Review

During the Reporting Period, the Group recorded a revenue of approximately RMB346.2 million, representing a decrease of 12.6% from approximately RMB395.9 million for the corresponding period last year. Gross profit was approximately RMB118.8 million, representing a decrease of 10.9% as compared with the corresponding period last year. Net profit was approximately RMB64.6 million, representing a decrease of approximately 11.0% from approximately RMB72.6 million for the first half of 2015. The Group's profit attributable to shareholders for the Reporting Period was approximately RMB62.0 million. The decrease in revenue of the Group for the Reporting Period compared to the first half of 2015 was mainly due to the slowdown of the construction projects in domestic dredging industry and the drop in number of newly contracted construction projects as the Group adopted a more prudent strategy in selecting new projects.

The CRD Business is a core business of the Group. Though revenue generated from the segment decreased during the Reporting Period, gross profit margin from it remained increasing, up 2.7 percentage points from the first half of 2015 to 40.6% attributable to our healthy and prudent operating strategy, reflected by a better understanding of the background and a more detailed and thorough due diligence review of newly contracted constructions, including but not limited to the feasibility of fund raising, natural conditions and construction status of the projects, to ensure a reliable capital return and a more controllable level of gross profit of such new projects.

The Group proactively develops and expands the EPD and Water Management Business segment. Due to the sludge dewatering equipment produced by the Group for the sole use of EPD works, our dredging capacity increased by approximately 3 million cubic meters from 5 million cubic meters per annum during the first half of 2015 to 8 million cubic meters per annum in the Reporting Period.

Other Marine Business includes marine hoisting, installation, salvaging, vessel chartering and other engineering services. The service prices of the segment fell due to the fact of intensified market competition among hoisting and salvaging business.

The Group completed the construction of a 8-floor shopping mall located in the core area of Yancheng National High-tech Industrial Development Zone, Yandu District, Yancheng. The land where the shopping mall constructed was acquired by the Group in May 2012 with a gross floor area of 75,600 square meters, mainly used for leasing under the Property Management Business. The shopping mall was officially named 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*) and commenced operation on 26 March 2016, positioning as a large scale home building material-themed shopping center offering one-stop services from furniture, housewares to decoration materials to customers.

Leveraging on the brand of "Easyhome" and its mode of operation, the Group wishes to improve its competitiveness to boost the occupancy rate of the shopping mall and pursue higher profitability. In the long run, the Group expects this project to work as another long-term and stable source of revenue providing stable cash flows to the further expansion of the EPD business by the Group in the future.

Future Prospects

Looking forward, despite continuing slowdown in economic growth of the PRC, demand for environmental protection from both the government and the public keeps rising. Various business opportunities are expected to appear in the future following the enforcement and implementation of a series of environmental governance policies in recent years. Although the overall condition of the dredging industry is far from satisfactory and the materialisation of such business opportunities still needs time, the Group endeavors to seise the opportunity to the development of its business coming along with each environmental protection policy, coupled with greater efforts in the research and development of EPD techniques and related equipment production in a proactively manner for the purpose of development of EPD industry. As set out in the Annual Report 2015 of the Group, with our diversified experience in EPD works, adding to the sludge dewatering equipment designed and produced in-house, the Group will secure more dredging projects. The Group's EPD and Water Management Business is expected to grow in a sustainable way and secure more dredging projects for the Group, while greatly improving the market competitiveness, brand image and industry position of the Group.

In terms of capital operation, the Group will actively identify and materialise healthy and feasible financial plans based on the progress of its construction projects, so as to further optimise the financial position and enhance the capital base of the Group.

Financial Review

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB346.2 million, representing a decrease of 12.6% as compared with approximately RMB395.9 million in the corresponding period of 2015.

Regarding the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the Reporting Period were approximately RMB183.7 million and approximately RMB82.8 million which represented a decrease of 16.6% and a decrease of 20.0% respectively from the corresponding segments' revenue in the corresponding period of 2015. The decrease in revenue from the CRD Business segment was primarily due to the slowdown of the implementation of the construction projects in the domestic dredging industry, and the drop in number of newly contracted construction projects as the Group implemented a more prudent and careful operating strategy in selecting new projects. The decrease in revenue from EPD and Water Management Business segment for the Reporting Period was due to the slow progress in complementing certain EPD projects.

Other Marine Business contributed a revenue of approximately RMB78.0 million to the Group for the Reporting Period, which represented an increase of 8.0% as compared with approximately RMB72.2 million in the corresponding period of 2015.

The revenue of the Property Management Business for the Reporting Period was approximately RMB1.7 million. The growth of this business segment is subject to the duration of the marketing and promotion efforts, the cultivation process of customer base as well as the ultimate customers' recognition of the brand and shopping mall.

Operating costs and gross profit

The Group's operating costs decreased from approximately RMB262.6 million for the six months ended 30 June 2015 to approximately RMB227.4 million for the Reporting Period, representing a decrease of 13.4%, which was due to the drop of the business volume along with the decrease in overall revenue.

The Group recorded a gross profit of approximately RMB118.8 million for the Reporting Period, representing a decrease of 10.9% as compared with the six months ended 30 June 2015 of RMB133.3 million. The decrease in gross profit was mainly due to lower income during the Reporting Period.

The segment gross profit margin of CRD Business increased from 37.9% for the six months ended 30 June 2015 to 40.6% for the Reporting Period, mainly due to the better gross profit terms for new capital and reclamation dredging projects which had been screened during the Reporting Period.

The segment gross profit margin of EPD and Water Management Business for the Reporting Period was 29.9% which was the same with the corresponding period last year. This segment gorss profit margin level was assessed to be reasonable.

The segment gross profit margin of Other Marine Business decreased by 6.3 percentage points from 15.2% for the six months ended 30 June 2015 to 8.9% for the Reporting Period, mainly due to the more intensive competition in the salvage industry which further lowered the project prices.

As a result, the overall gross profit margin of the Group slightly decreased from 31.7% for the six months ended 30 June 2015 to 29.9% for the Reporting Period, which was mainly caused by the Property Management Business that was at its initiation stage and the decrease in the gross profit margin of the Other Marine Business as result of the more intensive competition.

Other income

Other income decreased from approximately RMB19.6 million for the six months ended 30 June 2015 to approximately RMB17.5 million for the Reporting Period, mainly due to the decrease in interest income in respect of certain non-current accounts receivables and consideration receivables during the Reporting Period.

Net gain due to fair value changes of derivative financial liabilities

During the Reporting Period, there was a non-cash gain of approximately RMB6.6 million due to the change of fair value of convertible bonds while there was a non-cash gain of approximately RMB6.6 million due to the change of fair value of convertible bonds and warrants for the same period last year. The relevant warrants expired on 18 January 2016 and the convertible bonds will mature on 7 November 2016.

Marketing and promotion expenses

Marketing and promotion expenses for the Reporting Period was approximately RMB5.7 million representing an increase of 69.2% as compared with the six months ended 30 June 2015 of approximately RMB3.4 million, which was mainly attributable to the coming into operation of 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*) during the Reporting Period. The Group launched a series of marketing and promotion activities, including inviting a famous celebrity to attend the grand opening ceremony.

Administrative expenses

Administrative expenses of the Group for the Reporting Period amounted to approximately RMB26.4 million, representing an increase of 44.3% from approximately RMB18.3 million for the six months ended 30 June 2015. This was mainly due to the increase in new staff salary cost as a result of the operation of 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*), the increase in depreciation and maintenance cost of the property, and the increase in the related professional fees.

Foreign Exchange Difference

Due to the fluctuation in the foreign exchange rate during the Reporting Period, part of the Group's bank borrowings, bank deposits and convertible bonds were denominated in United States dollars and Hong Kong dollars. The foreign exchange loss of approximately RMB5.9 million was recognised in the Reporting Period (30 June 2015: gain of approximately RMB2.1 million).

Finance costs

Finance costs decreased by approximately RMB2.7 million to approximately RMB35.6 million for the Reporting Period as compared to the six months ended 30 June 2015.

Income tax expense

Although profit before tax for the Reporting Period decreased, income tax expense increased from approximately RMB27.0 million for the corresponding period in 2015 to approximately RMB28.9 million for the Reporting Period which was mainly due to the increase of the effective tax rate from 27.1% to 31.0%.

Profit for the period

As a combined effect of the above, the net profit for the period decreased by 11.0% from approximately RMB72.6 million for the six months ended 30 June 2015 to approximately RMB64.6 million for the Reporting Period. Comparing the operating profit of the six months ended 30 June 2015 with the operating profit for the Reporting Period with the non-cash net gain/loss due to fair value changes of derivative financial liability, gain on disposal of Jiangsu Lugang (as defined below) and exchange loss were not taken into account, the operating profit dropped by about 39.8%.

Earnings per share

Basic earnings per share for the Reporting Period was RMB0.05 per share, representing a decrease of about 27.5% as compared to earnings per share of RMB0.07 for the six months ended 30 June 2015.

Financial position

As at 30 June 2016, total equity of the Group amounted to approximately RMB2,183.8 million (31 December 2015: approximately RMB2,123.4 million).

The Group's net current liabilities as at 30 June 2016 amounted to approximately RMB49.7 million (31 December 2015: approximately RMB216.6 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2016 was 0.97 (31 December 2015: 0.86).

Liquidity and financial resources

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

Included in current assets were cash and various bank deposits totaling approximately RMB225.7 million as at 30 June 2016, representing an increase of approximately RMB24.6 million as compared with approximately RMB201.1 million as at 31 December 2015.

The Group's accounts receivables as at 30 June 2016 increased by approximately RMB106.2 million from approximately RMB1,121.5 million as at 31 December 2015 to approximately RMB1,227.7 million.

Total liabilities of the Group decreased from approximately RMB1,753.7 million as at 31 December 2015 to approximately RMB1,635.3 million as at 30 June 2016. The decrease in total liabilities was mainly due to the decrease of bank borrowings and accounts and other payables. The Group's gearing ratio (calculated by interest bearing instruments (including bank borrowings, other borrowings and convertible bonds) divided by total equity) decreased to a level of 43.2% (2015: 47.7%), which the Board believes is at a healthy level.

Charge over assets of the Group

As at 30 June 2016, the Group's bank borrowings were secured by pledged bank deposits of approximately RMB115.0 million, charges over certain dredgers, accounts receivables and land owned by the Group, a property owned by a company which Mr. Liu Kaijin ("Mr. Liu") has beneficial interest, and personal guarantees by Mr. Liu and Ms. Zhou Shuhua. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the contractual arrangements, pursuant to which all economic benefits and risks arising from the business of 江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holding Group Limited*) ("Jiangsu Xingyu") have been transferred to 江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*).

Risk 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 were denominated mainly in Renminbi, which was the Group's functional and reporting currencies, and save for convertible bonds and certain bank borrowing and balances denominated in United States dollars and Hong Kong dollars, the foreign exchange loss recognised for the Reporting Period was approximately RMB5.9 million (30 June 2015: gain of approximately RMB2.1 million). The Group is giving full attention to respond to the related foreign exchange rate risks.

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

Material acquisitions and disposals

On 9 March 2016, Jiangsu Xingyu entered into a share transfer agreement with Ms. Xu Xiulan and Ms. Chou Zhaoxiu (collectively called the "Purchasers") pursuant to which Jiangsu Xingyu agreed to sell the entire equity interest of 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction

Project Co. Limited*) ("Jiangsu Lugang"), an indirect wholly-owned subsidiary of the Company, to the Purchasers, among which 98.89% equity interest should be acquired by Ms. Xu Xiulan and the remaining 1.11% equity interest should be acquired by Ms. Chou Zhaoxiu. The total consideration is RMB85.8 million. Jiangsu Lugang is principally engaged in port and waterway construction and reclamation dredging business. The transaction was completed on 17 March 2016.

Pursuant to the above share transfer agreement, the Purchasers shall undertake that after completion of the share transfer, the Purchasers shall continue to cooperate with Jiangsu Xingyu on its business to ensure that the operation of investment projects of Jiangsu Xingyu which tenders have been awarded will not be affected by the sale of Jiangsu Lugang.

Capital commitments and contingent liabilities

As at 30 June 2016, the Group had capital commitments of approximately RMB88.1 million (31 December 2015: approximately RMB83.5 million) which included the construction cost of approximately RMB71.9 million for 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*), the capital investment of approximately RMB7.1 million in a micro-financing company, the capital investment of approximately RMB6.0 million in a water management company and the construction cost of approximately RMB3.1 million for an environmental equipment plant.

As at 30 June 2016, the Group did not have any material contingent liability (31 December 2015: nil).

Employees and remuneration policy

As at 30 June 2016, the Group had a workforce of 622 employees (31 December 2015: 620). Total staff cost for the Reporting Period was about RMB25.1 million (30 June 2015: approximately RMB30.0 million). The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under the share option scheme (under which options to subscribe for shares of the Company 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 Reporting Period, the Group did not experience any strikes, work stoppages or significant labour disputes which affected its operations or any significant difficulties in recruiting and retaining qualified staff.

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to high standards of corporate governance. The Directors believe that the Company has complied with all the applicable code provisions of the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Listing Rules for the Reporting Period and there was no material deviation from the CG Code.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company ("Audit Committee") has been set up in accordance with the Listing Rules. Members of the Audit Committee as at 30 June 2016 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Xu Hengju and Mr. Huan Xuedong, all of whom are independent non-executive Directors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group, financial reporting matters including a review of the unaudited consolidated results for the Reporting Period prior to recommending them to the Board for approval.

The unaudited condensed consolidated interim financial statements for the Reporting Period have been reviewed by the Company's auditor, CWC CPA Limited.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Company *(www.cdep.com.hk)* and the Stock Exchange *(www.hkexnews.hk)*. An interim report for the Reporting Period containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

By order of the Board
China Dredging Environment Protection Holdings Limited
Liu Kaijin
Joint Chairman, Executive Director and Chief Executive Officer

Hong Kong, 30 August 2016

As at the date of this announcement, the Board comprises Mr. Liu Kaijin as Joint Chairman, Executive Director and Chief Executive Officer; Ms. Zhou Shuhua as an Executive Director; Mr. Liu Longhua as a Non-executive Director and Joint Chairman; and Mr. Huan Xue Dong, Mr. Chan Ming Sun Jonathan and Mr. Xu Hengju as Independent Non-executive Directors.

* *For identification only*