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 2019

The board (the "Board") of directors (the "Director(s)") of China Dredging Environment Protection Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019 (the "Reporting Period"), together with the unaudited comparative figures for the six months ended 30 June 2018 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 2019

		Six months ended 30 June	
		2019	2018
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	*4*	**270,433**	352,128
Operating costs		**(239,952)**	(260,495)
Gross profit		**30,481**	91,633
Other income		**1,192**	6,047
Other gains and losses, net		**(709)**	(2,838)
Marketing and promotion expenses		**(2,628)**	(2,399)
Administrative expenses		**(26,168)**	(29,330)
Finance costs		**(25,311)**	(25,374)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)
For the six months ended 30 June 2019

	Notes	**Six months ended 30 June** **2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Unaudited)
(Loss)/profit before tax		**(23,143)**	37,739
Income tax expense	*6*	**(2,110)**	(15,925)
(Loss)/profit and total comprehensive (expense)/ income for the period	*7*	**(25,253)**	21,814
(Loss)/profit and total comprehensive (expense)/ income for the period attributable to:			
Owners of the Company		**(27,030)**	20,025
Non-controlling interests		**1,777**	1,789
		(25,253)	21,814
(Loss)/earnings per share	*8*		
— basic (RMB cents)		**(1.5)**	1.4
— diluted (RMB cents)		**(1.5)**	1.4

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**1,415,306**	1,457,160
Right-of-use assets		**96,613**	—
Prepaid land lease payments		**—**	92,398
Investment properties		**470,786**	470,786
Goodwill		**201**	201
Other intangible assets		**3,917**	4,083
Deposit paid for acquisition of property, plant and equipment		**13,426**	13,153
Deferred tax assets		**98,332**	98,332
Trade and other receivables due after one year	*10*	**2,052**	1,908
Contract assets		**8,148**	34,662
		2,108,781	2,172,683
Current assets			
Prepaid land lease payments		**—**	2,908
Trade and other receivables	*10*	**1,165,053**	1,125,061
Contract assets		**30,153**	—
Bank balances and cash		**15,669**	48,435
		1,210,875	1,176,404
Current liabilities			
Trade and other payables	*11*	**371,102**	378,433
Amounts due to directors of the Company		**12,086**	6,933
Amounts due to non-controlling interests of a subsidiary		**1,585**	1,764
Tax payable		**101,012**	102,083
Bank borrowings	*12*	**312,670**	324,670
Other borrowings		**51,861**	54,526
Bonds payable	*13*	**265,457**	254,916
Contract liabilities		**24,385**	22,136
Lease liabilities		**1,230**	—
		1,141,388	1,145,461
Net current assets		**69,487**	30,943
Total assets less current liabilities		**2,178,268**	2,203,626

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2019

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
Capital and reserves		
Share capital	**149,577**	149,577
Reserves	**1,756,816**	1,783,846
Equity attributable to owners of the Company	**1,906,393**	1,933,423
Non-controlling interests	**152,523**	155,203
Total equity	**2,058,916**	2,088,626
Non-current liabilities		
Amounts due to non-controlling interests of a subsidiary	**65,703**	69,711
Deferred tax liabilities	**10,224**	11,034
Other borrowings	**41,915**	34,255
Lease liabilities	**1,510**	—
	119,352	115,000
	2,178,268	2,203,626

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands and its shares ("Shares") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 (the "Listing Rules").

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

For the purpose of listing the Shares on the Stock Exchange in 2011, the entities in the Group underwent a series of reorganisation steps to rationalise the group structure (the "Reorganisation"). As part of the Reorganisation, Jiangsu Xingyu Holdings Group Limited* (江蘇興宇控股集團有限公司) (formerly known as Jiangsu Xingyu Port Construction Company Limited* 江蘇興宇港建有限公司) ("Jiangsu Xingyu"), Jiangsu Xiangyu Port Construction Project Administration Company Limited* (江蘇翔宇港建工程管理有限公司) ("Xiangyu PRC"), Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") both are executive directors of the Company entered into a series of agreements (the "Contractual Arrangements") on 19 April 2011. Details of the principal terms of the Contractual Arrangements are set out in the Company's prospectus dated 8 June 2011 in the section headed "Contractual Arrangements".

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

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019, the Company and CITIC Capital China Access Fund Limited (the "Bondholder" or "CITIC") entered into the sixth amendment agreement (the "Sixth Amendment Agreement") on 15 March 2019 to further amend the terms and conditions of the Bonds as defined in Note 13, pursuant to which the Bondholder agreed to extend the due date for repayment of the Bonds. Under the Sixth Amendment Agreement, the Company needs to repay the principal amount of the Bonds of HK$290,000,000 (equivalent to RMB254,916,000) together with the interest by 20 December 2019.

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The conditions described above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the condensed consolidated financial statements were prepared based on the assumption that the Group can be operated as a going concern and the directors of the Company ("directors") are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 30 June 2019, after taking into consideration of the following:

(1) The Group continues to generate cash inflows from its operating activities by implementing measures to tighten cost controls over various operating expenses in order to improve its cash flows position and to generate greater positive cash inflows from its operations in the future;

(2) Most of the bank borrowings as at 30 June 2019 were secured by the Group's assets and it was considered highly probable that they can be renewed in the next twelve months; and

(3) As at 30 June 2019, the Group has unutilised banking facilities of RMB15,950,000 which will be available for use by the Group.

On the basis of the above considerations, the directors of the Company 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 for certain financial instruments and investment properties that are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

Transition and summary of effects arising from initial application of HKFRS 16

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of RMB3,215,000 and right-of-use assets of RMB98,521,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.56%.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	3,871
Lease liabilities discounted at relevant incremental borrowing rates	3,597
Less: Recognition exemption — short-term leases	(382)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	3,215
Analysed as	
Current	1,150
Non-current	2,065
	3,215

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	3,215
Reclassified from prepaid lease payments	95,306
	98,521
By class:	
Plant and equipment	3,215
Prepaid land lease payment	95,306
	98,521

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	**Adjustments**	**Carrying amounts under HKFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Prepaid lease payments (note)	92,398	(92,398)	—
Right-of-use assets	—	98,521	98,521
Current assets			
Prepaid lease payments (note)	2,908	(2,908)	—
Current liabilities			
Lease liabilities	—	(1,150)	(1,150)
Non-current liabilities			
Lease liabilities	—	(2,065)	(2,065)

Note: Upfront payments for leasehold lands in the People's Republic of China ("PRC") were classified as land lease prepayments as at 31 December 2018. Upon application of HKFRS 16, the non-current portion of prepaid lease payments amounting to RMB92,398,000 was reclassified to right-of-use assets.

4. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Segments		
Capital and Reclamation Dredging Business	**80,695**	89,997
Environment Protection Dredging and Water Management Business	**29,550**	56,243
Other Marine Business	**155,610**	201,965
Property Management Business	**4,578**	3,923
	270,433	352,128
Timing of revenue recognition		
At point in time	**—**	—
Over time	**270,433**	352,128
Total	**270,433**	352,128

Geographical information

The Group's operations are located in the PRC. All provisions of services are carried out in the PRC.

5. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, who are also the chief operating decision makers of the Group ("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 and the construction of a hotel by the Group.

5. SEGMENT INFORMATION (Continued)

Segment results

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

	Capital and reclamation dredging business *RMB'000* **(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 2019					
Segment revenue	**80,695**	**29,550**	**155,610**	**4,578**	**270,433**
Segment results	**(1,067)**	**10,247**	**6,401**	**1,438**	**17,019**
Unallocated other income					**74**
Unallocated other gains and losses					**(826)**
Unallocated corporate expenses					**(18,064)**
Unallocated finance costs					**(21,346)**
Loss before tax					**(23,143)**

	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 2018					
Segment revenue	89,997	56,243	201,965	3,923	352,128
Segment results	26,208	17,213	36,018	2,843	82,282
Unallocated other income					700
Other gains and losses					(2,838)
Unallocated corporate expenses					(27,874)
Unallocated finance costs					(14,531)
Profit before tax					37,739

5. **SEGMENT INFORMATION (Continued)**

Segment results (Continued)

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.

Segment assets

	Capital and reclamation dredging business	Environmental protection dredging and water management business	Other marine business	Property management business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 June 2019					
Segment assets	**1,624,837**	**390,003**	**536,530**	**689,381**	**3,240,751**
At 31 December 2018					
Segment assets	1,642,495	388,354	527,533	682,914	3,241,296

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**2,920**	16,734
Deferred taxation	**(810)**	(809)
	2,110	15,925

(i) PRC EIT

PRC EIT is calculated at the statutory rate of 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.

7. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**53,069**	50,590
Depreciation of right-of-use assets	**2,003**	—
Amortisation of prepaid land lease payments	**—**	1,396
Amortisation of other intangible assets	**167**	167
Exchange loss	**826**	2,838
Sub-contracting charges included in operating costs	**137,718**	131,687

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
(Loss)/profit for the period attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	**(27,030)**	20,025
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,773,664**	1,478,064

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 loss per share for the period ended 30 June 2019 does not assume the exercise of share options since the assumed exercise would result in a decrease in loss per share.

9. DIVIDENDS

No dividends were paid, declared or proposed during both periods. The directors have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2018: nil).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Non-current:		
Value-added tax recoverable	**2,052**	1,908
Current:		
Trade receivables, net of expected credit losses/impairment allowance	**1,046,925**	1,035,691
Bills receivable	**12,102**	3,468
Government financial incentive receivables	**14,842**	14,842
Deposits and prepayments	**81,951**	63,475
Others	**9,233**	7,585
	1,165,053	1,125,061
	1,167,105	1,126,969

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 trade receivables, prepared based on the dates of certification of work done, which approximate the respective revenue recognition dates (net of credit losses for trade receivables), at the end of each reporting period is as follows:

Aged analysis of the Group's trade receivables

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
0–30 days	**54,951**	74,841
31–60 days	**6,229**	27,916
61–90 days	**61,361**	24,419
91–180 days	**107,459**	77,703
181–365 days	**75,839**	154,249
1 year–2 years	**243,169**	249,592
Over 2 years	**497,917**	426,971
	1,046,925	1,035,691

10. TRADE AND OTHER RECEIVABLES (Continued)

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 2019 *RMB'000* **(Unaudited)**	At 31 December 2018 *RMB'000* (Audited)
0–30 days	**4,000**	200
31–60 days	**2,570**	132
61–90 days	**700**	900
91–180 days	**4,832**	2,236
	12,102	3,468

11. TRADE AND OTHER PAYABLES

	At 30 June 2019 *RMB'000* **(Unaudited)**	At 31 December 2018 *RMB'000* (Audited)
Trade payables		
Sub-contracting charge	**137,594**	142,054
Fuel cost	**6,490**	10,002
Repair and maintenance	**15,892**	17,914
Others	**7,959**	5,695
	167,935	175,665
Other payables		
Payable for construction cost of investment properties	**82,751**	82,715
Accrued for other taxes	**62,117**	61,442
Accrued for staff salaries and welfare	**31,970**	33,150
Others	**26,329**	25,461
	203,167	202,768
	371,102	378,433

11. TRADE AND OTHER PAYABLES (Continued)

The aged analysis of the Group's trade 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 2019 *RMB'000* **(Unaudited)**	At 31 December 2018 *RMB'000* (Audited)
0–30 days	**7,633**	24,214
31–60 days	**1,201**	1,077
61–90 days	**4,148**	16,330
91–180 days	**60,080**	43,106
Over 180 days	**94,873**	90,938
	167,935	175,665

12. BANK BORROWINGS

During the current interim period, the Group raised bank loans of RMB349,000,000 (31 December 2018: RMB364,670,000) and repaid bank loans of RMB361,000,000 (31 December 2018: RMB411,192,000). As at 30 June 2019, the effective interest rates of the bank borrowings ranged from 4.57% to 9.98% (31 December 2018: 4.57% to 9.98%) per annum.

13. BONDS PAYABLE

The Company issued unsecured convertible bonds (the "Bonds") to CITIC at a total nominal value of HK$243,000,000 (equivalent to RMB191,970,000) on 8 November 2013, carrying an interest rate of 3% per annum with the maturity date of 7 November 2016 (the "Original Maturity Date"). The Bondholder had the option to either convert them into the Company's ordinary shares at a conversion price of HK$2.7 per share, subject to anti-dilutive adjustments, at any time after six months from the date of issue and up to the Original Maturity Date, or to require the Company to redeem them at 133.792% of the nominal value of the Bonds, which amounted to HK$325,115,000 (equivalent to RMB290,818,000) (the "Original Redemption Amount"), upon maturity. The Company had no right to early redeem the Bonds.

At the time when the Bonds were issued, the Bonds were analysed by the management of the Group to contain two components, the host debt component and the conversion option. The Bonds are denominated in Hong Kong Dollar ("HK$"), which is a currency other than the Company's functional currency. Therefore, the conversion option in the Bonds would not result in an exchange of a fixed number of the Company's own equity instrument for a fixed amount of cash in the functional currency of the Company. Accordingly, the conversion option was accounted for separately as a derivative liability, which was not closely related to the host debt component. The fair values of the debt component and the derivative component were determined at the date of issue. Subsequent to initial recognition, the debt component was carried at amortised cost while the derivative component was measured at fair value, with changes in fair value recognised in profit or loss. The effective interest rate of the debt component was 16.9%.

13. BONDS PAYABLE (Continued)

The Group had not paid the Original Redemption Amount and the last interest payment on the Original Maturity Date to CITIC. Overdue interest of HK$945,000 (equivalent to RMB840,000) was incurred. During the year ended 31 December 2016, the Company and CITIC entered into a framework agreement on 14 November 2016 and a standstill and amended agreement and supplemental deed to the original deed poll regarding the Bonds (the "Amendment Agreement") on 15 December 2016, pursuant to which CITIC agreed to a) extend the maturity from the Original Maturity Date to 14 March 2017 and b) reduce the principal amount of Original Redemption Amount to HK$275,415,000 (equivalent to RMB246,381,000), subject to certain conditions as stated in the Amendment Agreement.

Furthermore, the conversion option under the Bonds was removed under the Amendment Agreement. Accordingly, no embedded derivative was recognised at 31 December 2016 and at the end of subsequent accounting periods.

During the current interim period, the Company had settled HK$6,838,000 (equivalent to RMB5,922,000) to CITIC. On 21 March 2017, 5 June 2017, 21 September 2017, 23 January 2018 and 15 March 2019, the Company and CITIC had entered into the second amendment agreement, the third amendment agreement, the fourth amendment agreement, the fifth amendment agreement and the Sixth Amendment Agreement respectively. As at 30 June 2019, the Sixth Amendment Agreement was in effect, pursuant to which the maturity date of the Bonds was extended, the Company needed to repay the principal amount of the Bonds of HK$290,000,000 (equivalent to RMB254,916,000) together with the interest due by 20 December 2019 with interest rate at an amended rate of 13% per annum.

Details of each of the agreements are set out in the announcements of the Company dated 7 November 2016, 15 November 2016, 16 November 2016, 16 December 2016, 22 March 2017, 5 June 2017, 22 September 2017, 1 December 2017, 23 January 2018 and 15 March 2019.

Based on the revised agreements, interest rates are as follows:

Period	**Interest rate per annum**
From 15 November 2016 and up to 14 December 2016	13%
From 15 December 2016 and up to 14 March 2017	15%
From 15 March 2017 and up to 4 June 2017	18%
From 5 June 2017 and up to 21 June 2017	13%
From 22 June 2017 and up to 21 September 2017	18%
From 22 September 2017 and up to 15 November 2017	13%
From 16 November 2017 and up to 22 January 2018	13%
From 23 January 2018 and up to 21 June 2018	13%
From 22 June 2018 and up to 20 December 2019	13%

Note: The above interest shall accrue on a day to day basis and be calculated on the basis of a 365-day calendar year on revised principal amounts and compounded on a monthly basis.

Under the abovementioned agreements entered into the Company and CITIC, the Bonds are secured by personal guaranteed by Mr. Liu and his spouse Ms. Zhou, who are the directors of the Company, and pledges in favour of CITIC and/or its affiliates in respect of a dredger, and an industrial premises and a residential property owned by the Group included in property, plant and equipment with carrying value of RMB251,417,000.

13. BONDS PAYABLE (Continued)

The Bonds recognised in the condensed consolidated statement of financial position are calculated as follows:

	Total
	RMB'000
At 1 January 2018 (audited)	231,227
Interest	30,694
Settlement	(19,207)
Exchange realignment	12,202
At 31 December 2018 (audited)	254,916
Interest	15,869
Settlement	(5,922)
Exchange realignment	594
At 30 June 2019 (unaudited)	**265,457**

14. RELATED PARTY DISCLOSURES

(i) Related party transactions

In addition, the Group received other advances from, and made repayments to Mr. Liu during the six months ended 30 June 2019 and 2018. As at 30 June 2019, the amount due to Mr. Liu was RMB8,526,000 (31 December 2018: RMB3,803,000).

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

As at 30 June 2019 and 31 December 2018, other than pledge of assets of the Group, the Group's bank borrowings and bonds payable were also supported by:

(a) corporate guarantee given by Jiangsu Xingyu which is a subsidiary of the Company;

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

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

In addition, as at 30 June 2019 the Group's bank borrowings to the extent of RMB82 million (31 December 2018: RMB85 million) was secured by a property owned by a company, which is owned by Mr. Liu.

(iii) Compensation of key management personnel

Details of the emoluments paid or payable to the directors and the chief executive of the Group during the current and previous interim period are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**984**	1,050
Post-employment benefits	**—**	—
	984	1,050

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 and water management business ("EPD and Water Management Business"); and (iii) other works operated in marine sites ("Other Marine Business"). In addition, the Group has set up property management business in respect of the management of Easyhome Yancheng Shopping Mall* (居然之家鹽城店) (the "Property Management Business").

During the Reporting Period, the Group recorded a net loss of approximately RMB25.3 million, as compared to a net profit of approximately RMB21.8 million for the first half of the year 2018. The Company recorded a loss attributable to its shareholders of approximately RMB27.0 million for the Reporting Period.

BUSINESS REVIEW

During the Reporting Period, the Group recorded a revenue of approximately RMB270.4 million, representing a decrease of 23.2% from approximately RMB352.1 million the same period last year. Gross profit was approximately RMB30.5 million, representing a 66.7% decrease from RMB91.6 million the same period last year.

The CRD Business is the Group's core business. During the Reporting Period, the Group continuously explored overseas markets and actively undertaken several dredging projects in Bangladesh, Cambodia and Thailand. The decreased revenue generated by such business segment was attributable to the comparatively higher initial investment costs for the expansion of these overseas projects while the production capacity has not yet been unleased, which led to the decline in revenue and gross profit margin of this business segment. Meanwhile, owing to the greater variations in the volatility of new project construction conditions and the greater uncertainty in collection of receivables in the industry, the Group adopts a robust and prudent operating strategy to ensure an effective control of various possible operational risks as well as to speed up the collection of receivables.

The EPD and Water Management Business segment is a business that the Group proactively expands and develops. The Group recorded a decrease in revenue during the Reporting Period, which was attributable to the slow progress in implementing certain environmental protection dredging projects. However, the gross profit margin generated from this business segment increased, showing a growth of 4.1 percentage points to 34.7% over the first half of the year 2018.

Other Marine Business refers to services including installation of wind power generation equipment, bulk material hoisting and installation in dock and bridge construction, underwater pipeline installation and other engineering services. Due to the rapid development of the marine wind power constructions in mainland China, the Group will continuously increase its investment in the related equipment for the wind power constructions in order to grasp more such business opportunities.

Easyhome Yancheng Shopping Mall, located in the core area of Yancheng National High-tech Industrial Development Zone of the government administration centre of Yandu District, Yancheng City, Jiangsu Province, the PRC with a gross floor area of 75,600 square meters and used for commercial leasing under the Property Management business, is a large scale shopping centre themed on home building materials which mainly provides customers with "one-stop" services for items such as furniture, household products and furnishing and decoration materials. Currently, Easyhome Yancheng Shopping Mall has approximately 100 tenants, including renowned home furnishing brands Steel-Land (詩帝羅蘭), Cheers (芝華仕), M&Z Furniture (掌上明珠), Landbond Minim (聯邦米尼) and Telonang (泰隆祥). The Group hopes that, through the "Easyhome" brand and its business model, we will gain popularity and raise brand influence, as well as obtain long-term and stable rental income in order to provide steady cash flow support for the Group's further expansion of our environmental protection business.

In addition to the operation and lease of the shopping mall, the Group also commenced the construction of a 17-storey hotel with 200 guest rooms located at the west of Caihong Road, Yancheng City, Jiangsu Province in the year of 2016, with a gross floor area of 20,000 square metres. The related construction work of the hotel is still progressing and is expected to be completed by 2020.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB270.4 million, representing a decrease of 23.2% as compared with approximately RMB352.1 million in the corresponding period of 2018.

Regarding the CRD Business segment, the revenue generated during the Reporting Period was approximately RMB80.7 million which represented a decrease of 10.3% from the corresponding segment's revenue in the corresponding period of 2018. The decrease in revenue from the CRD Business segment was primarily due to the difficulty to unleash the production capacity in a short period as result of comparatively more preparatory works, including the arrangement of the dispatch of vessels and lying of pipeline, at the initial stage for the Group's actively developed overseas projects.

Regarding the EPD and Water Management Business segment, the revenue generated during the Reporting Period was approximately RMB29.6 million which represented a decrease of 47.5% from the corresponding segment's revenue in the corresponding period of 2018. The decrease in revenue for the Reporting Period was due to the slow progress of certain environmental protection dredging projects.

Other Marine Business contributed a revenue of approximately RMB155.6 million to the Group for the Reporting Period, which represented a decrease of 23.0% as compared with approximately RMB202.0 million in the corresponding period of 2018. The decrease in revenue was mainly due to the keen competition within the wind power field.

The revenue of the Property Management Business for the Reporting Period was approximately RMB4.6 million, which represented an increase of 17.9% as compared with approximately RMB3.9 million in the corresponding period of 2018. Notwithstanding an income growth for such business, it could not bring profit to the Group for the time being as it was still at the development stage.

Operating costs and gross profit

The Group's operating costs decreased by 7.9% from approximately RMB260.5 million for the six months ended 30 June 2018 to approximately RMB240.0 million for the Reporting Period.

The Group recorded a gross profit of approximately RMB30.5 million for the Reporting Period, representing a substantial decrease of 66.7% as compared with the six months ended 30 June 2018 of RMB91.6 million.

The segment gross profit margin of CRD Business decreased from 29.1% for the six months ended 30 June 2018 to –1.3% for the Reporting Period, which was mainly due to the comparatively larger initial investment costs and the longer preparatory period for the overseas projects while the production capacity has not yet unleased, resulting in the decline in the revenue and gross profit margin for this business segment.

The segment gross profit margin of EPD and Water Management Business for the Reporting Period was 34.7% which was higher than 30.6% for the corresponding period last year.

The segment gross profit margin of Other Marine Business decreased from 17.8% for the six months ended 30 June 2018 to 4.1% for the Reporting Period, which arose from the keen competition within the wind power field during the Reporting Period.

As a result, the overall gross profit margin of the Group decreased from 26.0% for the six months ended 30 June 2018 to 11.3% for the Reporting Period.

Other income

Other income decreased from approximately RMB6.0 million for the six months ended 30 June 2018 to approximately RMB1.2 million for the Reporting Period, which was mainly due to the absence of interest income in respect of non-current trade receivables and government financial incentive during the Reporting Period.

Marketing and promotion expenses

Marketing and promotion expenses for the Reporting Period was approximately RMB2.6 million representing an increase of 9.6% as compared with approximately RMB2.4 million for the six months ended 30 June 2018, which was mainly due to exploring the overseas projects.

Administrative expenses

Administrative expenses of the Group for the Reporting Period amounted to approximately RMB26.2 million, representing a decrease of 10.8% from approximately RMB29.3 million for the six months ended 30 June 2018. This was mainly due to the saving in management expenses and the decrease in the professional fees.

Finance costs

Finance costs was approximately RMB25.3 million for the Reporting Period, which is nearly the same as that for the corresponding period last year.

Income tax expense

Income tax expense decreased from approximately RMB15.9 million for the corresponding period in 2018 to approximately RMB2.1 million for the Reporting Period.

Loss for the period

As a combined effect of the above, the loss for the Reporting Period was approximately RMB25.3 million, representing a decrease of about 215.8% as compared with a profit of approximately RMB21.8 million for the same period in 2018.

Loss per share

Loss per share for the Reporting Period was RMB0.015 per share, representing a decrease of about 207.1% as compared to earnings per share of RMB0.014 for the six months ended 30 June 2018.

Financial position

As at 30 June 2019, total equity of the Group amounted to approximately RMB2,058.9 million (31 December 2018: approximately RMB2,088.6 million).

The Group's net current assets as at 30 June 2019 amounted to approximately RMB69.5 million (31 December 2018: approximately RMB30.9 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2019 was 1.06 (31 December 2018: 1.03).

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 net current assets were cash and various bank deposits totaling approximately RMB15.7 million as at 30 June 2019 (31 December 2018: RMB48.4 million).

The Group's trade receivables as at 30 June 2019 increased by 1.1% from approximately RMB1,035.7 million as at 31 December 2018 to approximately RMB1,046.9 million.

As at 30 June 2019, total liabilities of the Group was approximately RMB1,260.7 million, which is nearly the same as that for the corresponding period last year. The Group's gearing ratio (calculated by interest bearing instruments (including bank borrowings, other borrowings and bonds payable) divided by total equity) was 32.6% (31 December 2018: 32.0%).

Capital structure of the Group

The capital structure of the Group consists of debts, which include amounts due to non-controlling interests of a subsidiary, bank borrowings, other borrowings, the Bonds payable and equity reserves attributable to owners of the Company, comprising issued share capital and various reserves.

The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

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 the Bonds and certain bank borrowings and balances denominated in United States dollars and Hong Kong dollars, the foreign exchange loss recognised for the Reporting Period was approximately RMB0.8 million (30 June 2018: approximately RMB2.8 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.

Charge over assets of the Group

As at 30 June 2019, the Group's bank borrowings were secured by charges over certain dredgers and land owned by the Group, a property owned by a company which Mr. Liu has beneficial interest, 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. The Group also pledged over a dredger, an industrial premises located in Jiangsu Province, the PRC and a residential property located in Shandong Province, the PRC in favour of CITIC and/or its affiliate.

Material acquisitions and disposals

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

Capital commitments and contingent liabilities

As at 30 June 2019, the Group had capital commitments of approximately RMB66.2 million (31 December 2018: approximately RMB67.2 million) which mainly included the construction cost of approximately RMB59.1 million for a hotel.

As at 30 June 2019, the Group did not have any material contingent liability (31 December 2018: nil).

PROSPECTS

Looking towards the future, the Group will carry on with its efforts to enhance the effectiveness of its dredging business and expects to bring reasonable returns through obtaining more works contracts by virtue of our rich construction experience on dredging projects. Following the commencement of the overseas construction projects, it is expected that the Group will have more overseas market opportunities.

For capital operation, based on the progress of its substantial construction projects including the operating progress of the overseas projects, the Group will actively identify and materialise healthy and feasible financial plans, thus strengthening the flexibility of capital resources and enhancing the capital structure of the Group, so as to satisfy, support and meet the Group's business development. Meanwhile, the Company will continue to seek opportunities to raise additional funds to redeem the relevant Bonds. When there is any material development made, the Company will timely inform the Shareholders and potential investors.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had a workforce of 612 employees (31 December 2018: 567). Total staff cost for the Reporting Period was about RMB19.8 million (30 June 2018: approximately RMB16.4 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.

INTERIM DIVIDEND

The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2018: Nil).

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

Members of the audit committee of the Company (the "Audit Committee") as at 30 June 2019 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Huan Xuedong and Mr. Liang Zequan, 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.

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
Chairman and executive Director

Hong Kong, 29 August 2019

As at the date of this announcement, the Board comprises Mr. Liu Kaijin as Chairman and Executive Director; Mr. Wu Bin as Vice Chairman and Executive Director, Mr. Wu Xuze as Executive Director and Chief Executive Officer; and Ms. Zhou Shuhua as executive Director; and Mr. Huan Xuedong, Mr. Chan Ming Sun Jonathan and Mr. Liang Zequan as Independent Non-executive Directors.

* *for identification purpose only*