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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL RESULTS

The board (the "Board") of directors (the "Director(s)") of China Dredging Environment Protection Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014, together with the audited comparative figures for the year ended 31 December 2013 as follows, which are presented in Renminbi ("RMB"), the lawful currency of the People's Republic of China (the "PRC"):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	4	**910,592**	973,615
Operating cost		**(648,275)**	(624,187)
Gross profit		**262,317**	349,428
Other income	5	**43,983**	31,147
Other gains and losses, net		**(24,191)**	(19,511)
Marketing and promotion expenses		**(10,725)**	(13,232)
Administrative expenses		**(40,402)**	(47,513)
Finance costs		**(68,837)**	(40,502)
Profit before tax		**162,145**	259,817
Income tax expense	6	**(53,566)**	(78,535)
Profit and total comprehensive income for the year	7	**108,579**	181,282
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**92,524**	164,757
Non-controlling interests		**16,055**	16,525
		108,579	181,282
Earnings per share	8		
— basic (RMB)		**0.11**	0.21
— diluted (RMB)		**0.11**	0.21

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,726,628**	1,693,267
Prepaid land lease payments		**95,105**	90,599
Goodwill		**2,956**	2,956
Intangible assets		**—**	2,560
Available-for-sale investment		**20,921**	17,147
Deposit paid for acquisition of property, plant and equipment		**9,502**	551
Deferred tax assets		**7,106**	—
Accounts and other receivables due after one year	*10*	**191,991**	219,470
		2,054,209	2,026,550
CURRENT ASSETS			
Prepaid land lease payments		**2,554**	2,410
Accounts and other receivables and prepayments	*10*	**1,232,692**	1,016,708
Pledged bank deposits		**20,794**	53,521
Bank balances and cash		**158,339**	312,183
		1,414,379	1,384,822
CURRENT LIABILITIES			
Accounts and other payables	*11*	**430,243**	524,638
Amounts due to directors		**2,833**	1,792
Amounts due to non-controlling interests of a subsidiary		**1,644**	4,952
Tax payable		**111,033**	109,931
Bank borrowings	*12*	**592,349**	631,349
Other borrowings	*12*	**1,362**	6,244
		1,139,464	1,278,906
NET CURRENT ASSETS		**274,915**	105,916
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,329,124**	2,132,466

	Notes	2014 RMB'000	2013 RMB'000
CAPITAL AND RESERVES			
Share capital		**71,592**	67,200
Reserves		**1,712,540**	1,528,223
Equity attributable to owners of the Company		**1,784,132**	1,595,423
Non-controlling interests		**150,783**	134,728
TOTAL EQUITY		**1,934,915**	1,730,151
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**89,333**	90,708
Deferred tax liabilities		**17,753**	20,063
Bank borrowings	*12*	**39,058**	60,717
Other borrowings	*12*	**32,939**	21,003
Convertible bonds	*13*	**198,461**	172,056
Derivative financial liabilities embedded in convertible bonds	*13*	**14,423**	37,768
Derivative financial liabilities in relation to warrants		**2,242**	—
		394,209	402,315
		2,329,124	2,132,466

NOTES:

1. GENERAL, REORGANIZATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares ("Shares") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2011. The Company's immediate and ultimate holding company is Wangji Limited, a limited liability company incorporated in the British Virgin Islands, which is ultimately owned by Mr. Liu Kaijin ("Mr. Liu"), who is the Joint Chairman and Chief Executive Officer of the Company.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance (Cap. 32).

For the purpose of listing ("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 and Ms. Zhou Shuhua ("Ms. Zhou") 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 (the "Prospectus") 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 consolidated financial statements of the Group as if the Company had always been their parent company.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the period presented or since their respective date of incorporation or establishment.

2. GOING CONCERN BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The Group has applied, for the first time in the current year, the following interpretation, amendments to Hong Kong Accounting Standards ("HKASs") and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

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

The application of the above interpretation and amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years, and disclosures set out in these consolidated financial statements.

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

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

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

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

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

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

Segment results

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

	Capital and Reclamation Dredging Business	Environmental Protection Dredging and Water Management Business	Dredging Related Construction Business	Other Marine Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2014					
Segment revenue	**474,417**	**208,451**	**53,291**	**174,433**	**910,592**
Segment results	**142,274**	**66,358**	**4,632**	**48,863**	**262,127**
Unallocated other income					**25,172**
Unallocated other gains and losses, net					**(25,118)**
Unallocated corporate expenses					**(36,712)**
Finance costs					**(63,324)**
Group's profit before tax					**162,145**
For the year ended 31 December 2013					
Segment revenue	437,403	325,228	42,316	168,668	973,615
Segment results	177,688	113,115	3,591	49,186	343,580
Unallocated other income					17,864
Fair value changes of derivative financial liabilities embedded in convertible bonds					(19,511)
Unallocated corporate expenses					(47,928)
Finance costs					(34,188)
Group's profit before tax					259,817

The accounting policies of the reportable segments are the same as the Group's accounting policies.

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

5. OTHER INCOME

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

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

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

6. INCOME TAX EXPENSE

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

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

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

(i) PRC EIT

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

(ii) Hong Kong Profits Tax

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

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

7. PROFIT FOR THE YEAR

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

8. EARNINGS PER SHARE

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

	2014	2013
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**92,524**	164,757
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**844,288**	800,000
Effect of dilutive potential ordinary shares:		
Share options	**5,671**	403
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**849,959**	800,403

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

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

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

9. DIVIDENDS

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

10. ACCOUNTS AND OTHER RECEIVABLES

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

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

Aged analysis of the Group's accounts receivable

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

11. ACCOUNTS AND OTHER PAYABLES

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

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

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

12. BANK AND OTHER BORROWINGS

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

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

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

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

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

	Debt component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
As at 8 November 2013 (date of issue)	173,713	18,257	191,970
Amortisation using effective interest method	4,102	—	4,102
Changes in fair value	—	19,511	19,511
At 31 December 2013	177,815	37,768	215,583
Amortisation using effective interest method	32,165	—	32,165
Changes in fair value	—	(23,345)	(23,345)
Interest settlement	(5,760)	—	(5,760)
At 31 December 2014	204,220	14,423	218,643

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

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

14. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

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

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

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

(a) corporate guarantee given by Xiangyu PRC;

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

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

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

15. EVENT AFTER THE REPORTING PERIOD

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Revenue

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

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

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

Operating Cost and Gross Profit

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

The profit margin of CRD Business decreased from about 40.6% for the year ended 31 December 2013 to about 30.0% for the reporting period. The approximately 10.6% drop of profit margin for the business activities under the CRD Business in the reporting period as compared to the year ended 31

December 2013 was due to the decrease of unit price of the CRD work in the PRC in the reporting period. We view that the unit price of the CRD work in the PRC will maintain steady and the profit margin will be at around 30.0% in the coming 2 to 3 years.

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

The profit margin of the Group's Other Marine Business decreased by less than 1.2% to about 28.0% for the reporting period which is considered by the Directors to be acceptable while the Group's Dredging Related Construction Business, which principally includes ancillary construction work of capital and reclamation dredging services, is a segment that traditionally operated at relatively low but acceptable profit margin.

Other Income

Other income increased by about RMB12.9 million to about RMB44.0 million for the reporting period which was mainly due to the increase in bank interest, interest income in respect of non-current account receivables and interest income for the consideration receivables payable by Yancheng City Hongji Construction Installation Engineering Company Limited* (鹽城市鴻基建築安裝工程有限責任公司) as mentioned in note 5.

Net Gain Due to Fair Value Changes of Derivative Financial Liabilities

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

Allowance for doubtful debts

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

Marketing and Promotion Expenses

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

Administrative Expenses

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

Income Tax Expense

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

Profit for the Year

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

Earnings Per Share

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

Financial Management Policies

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

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

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

Financial Position

As at 31 December 2014, total equity of the Group amounted to about RMB1,934.9 million (2013: RMB1,730.2 million). The increase was mainly due to net profit for the reporting period and the increase of capital due to new shares issued pursuant to the exercise of certain options under the Share Option Scheme.

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

Liquidity and Financial Resources

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

Included in net current assets were cash and various bank deposits totalling about RMB179.1 million as at 31 December 2014, representing a decrease of about RMB186.6 million as compared with about RMB365.7 million as at 31 December 2013.

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

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

Further, the Group has a sum of about RMB81.8 million other receivables to be settled by instalments before 31 December 2015 as described below. On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer to the Group its (i) 95% equity interest in Yongheng (as defined below), and (ii) its shareholder's loan therein, in lieu of settlement for certain trade debts due to the Group (the "1st Agreement"). The amount of such trade debts to be settled in this manner is RMB288,293,000 (comprising current portion of RMB251,798,000 and non-current portion of RMB36,495,000) as determined with reference to the adjusted net assets value of Yongheng based on a valuation report issued by Jiangsu Renhe Asset Valuation Company Limited* (江蘇仁和資產評估有限公司), a registered valuation firm in the PRC which is independent to the Group.

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

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

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

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

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

(iii) a further payment of not less than RMB100 million during the year ending 31 December 2014; and

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

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

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

Though the Group did not have any collateral over the receivables, the management considered that there is no recoverability problem as to its receivables as the remaining amounts were mainly due from reputable enterprises. The increase of overdue receivables as at 31 December 2014 to about RMB800.7 million (2013: RMB621.4 million) did not significantly impair the Group's liquidity position as it has a positive operating cash flows before movements in working capital changes for the year. However, to take a further prudent measure in managing the account receivables, the Group has decided to make an allowance for doubtful debts in an aggregate sum of about RMB49.3 million for the reporting period (2013: Nil).

Total liabilities of the Group as at 31 December 2014 were about RMB1,533.7 million (2013: RMB1,681.2 million). The decrease mainly represented decrease in bank loans in the sum of about RMB60.7 million and the net settlement of certain liabilities recorded in the year ended 31 December 2013. The bank loans will mature within one year and all are at fixed interest rates except a facility of HK$10 million (about RMB8 million). The proceeds of the loans and borrowings were and would be used for capital expenses (the building of the factory for the production of EPD equipment and the production of sludge de-watering equipment etc) and operating expenses.

The Group's gearing ratio (calculated by bank borrowings divided by total assets) decreased to a level of 16.5% (2013: 17.9%) or 23.9% (2013: 25.3%) if calculated by the aggregate sum of bank borrowings, obligations under finance lease and convertible bonds, which the Board believes is at a healthy level.

Charge Over Assets of the Group

As at 31 December 2014, the Group's bank borrowings are secured by pledged bank deposits of about RMB20.8 million, charges over certain dredgers and land owned by the Group; properties owned by certain non-controlling shareholders of the Company's subsidiary; and personal guarantees by Mr. Liu and Ms. Zhou. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the Contractual Arrangements, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu have been transferred to Xiangyu PRC.

Material Acquisitions and Disposals

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

Capital Commitments and Contingent Liabilities

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

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

Employees and Remuneration Policy

As at 31 December 2014, the Group had a workforce of 630 (2013: 668). The decrease in number of employees was just an ordinary labor turnover. The total staff cost for the reporting period was about RMB57.2 million (2013: RMB54.0 million). The increase of staff cost is because of the increase of staff salaries. The Group's remuneration policy is basically determined by the Directors based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under share option scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules).

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

Event After End of Reporting Period

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

BUSINESS REVIEW

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

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

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

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

OUTLOOK

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

For both CRD Business segment and EPD and Water Management segment, different supportive policies have already been and will be gradually implemented for their respective development in the coming years. Both the media and the general public have become more and more concerned about pollution. To tackle pollution problems has become the top priority work list of the PRC government. Recently, at the annual National People's Congress, Premier Li Keqiang made environmental protection one of the highlights in his latest Government Work Report, in particular, that the Water Pollution Prevention and Control Action Plan (Water Plan) is to be implemented in 2015. Hence, in the coming years, there is no doubt about the potential and huge demand in the EPD work though we are unable to foretell how much EPD projects will be assigned to our Group, and the schedule and timelines of commencement of those EPD projects. However, with our sludge de-watering equipment with proven technology together with our skills and experience in EPD work, we view the prospects of our EPD and Water Management Business positively and are committed to a further year of progress in 2015. Further, in January 2015, the Ministry of Environmental Protection of the PRC issued a consultative paper on the soil environmental quality of agricultural land《農用地土壤環境質量標準(徵求意見稿)》. We believe that those sludge treatment technology and/or skills which cause the treated soil/sludge to become alkaline or contaminated will be eliminated once the soil quality standard is set out. However, such soil standard requirement is to our advantage as our sludge treatment technology will not cause secondary pollution or change the PH value of the dried sludge. The production of our sludge de-watering equipment for the EPD works will be carried out as scheduled.

The establishment of Maritime Silk Road under the "One Belt One Road" ("OBOR") strategy initiated by Chinese President Xi Jinping will certainly provide a lot of opportunity for CRD business such as ports building and other infrastructure cooperation. The proposed path will begin in Fujian province of China, going through Guangdong, Guangxi, and Hainan before heading south to the Malacca Straight. Then from Kuala Lumpur, the maritime Silk Road heads towards Kolkata, then crossing the Indian

Ocean to Nairobi. From Nairobi, it goes north around the Horn of Africa and moves through the Red Sea into the Mediterranean, with a stop in Athens before meeting the Silk Road Economic Belt in Venice. Being one of the biggest privately owned dredging contractor in the PRC, our Group may be able to take this opportunity of the establishment of Maritime Silk Road to expand our business in the overseas.

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

CORPORATE GOVERNANCE REPORT

The Group has applied the principles and adopted all code provisions, where applicable, of the code provisions as contained in "Corporate Governance Code and Corporate Governance Report" set out in Appendix 14 to the Listing Rules as the Group's own code of corporate governance ("CG Code"). The Directors consider that the Company has complied with all applicable code provisions under the CG Code.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with specific written terms of reference that have included the duties which are set out in CG Code provision C.3.3 with appropriate modification when necessary.

The major roles and functions of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the auditor of the Group. Regular meetings would be held by the Audit Committee according to its term of reference.

As at 31 December 2014, the Audit Committee comprised three independent non-executive Directors namely, Mr. Chan Ming Sun, Jonathan (Chairman), Mr. Xu Hengju and Mr. Huan Xuedong.

The financial statements of the Group for the year ended 31 December 2014 were audited by the Company's auditor and reviewed by the Audit Committee.

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2014 (2013: nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2014.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2014 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2014 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Company's shareholders and published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.cdep.com.hk) in due course.

APPOINTMENT AND RESIGNATION OF DIRECTORS

On 17 January 2014, Ms. Peng Cuihong resigned as an independent non-executive Director and Mr. Xu Hengju was appointed as an independent non-executive Director on the same day. Please refer to the Company's announcement dated 17 January 2014 for further details.

By order of the Board
China Dredging Environment Protection Holdings Limited
Liu Kaijin
Joint chairman, executive Director
and chief executive officer

Hong Kong, 26 March 2015

As at the date of this announcement, the Board comprises Mr. Liu Kaijin, joint chairman, an 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 Xuedong, Mr. Chan Ming Sun, Jonathan and Mr. Xu Hengju as independent non-executive Directors.

* *For identification purpose only*