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 2017

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 2017, together with the audited comparative figures for the year ended 31 December 2016 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 2017

	notes	**2017** *RMB'000*	2016 *RMB'000*
Revenue	*4*	**650,924**	667,154
Operating cost		**(443,554)**	(434,042)
Gross profit		**207,370**	233,112
Other income	*5*	**18,059**	24,854
Other gains and losses, net		**20,202**	(5,999)
Marketing and promotion expenses		**(8,291)**	(11,073)
Administrative expenses		**(55,446)**	(48,722)
Finance costs		**(70,660)**	(69,952)
Profit before tax		**111,234**	122,220
Income tax expense	*6*	**(39,030)**	(46,970)
Profit and total comprehensive income for the year	*7*	**72,204**	75,250

	notes	**2017** **RMB'000**	2016 RMB'000
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**71,040**	68,794
Non-controlling interests		**1,164**	6,456
		72,204	75,250
Earnings per share	*8*		
— basic (RMB)		**0.048**	0.055
— diluted (RMB)		**0.048**	0.055

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	notes	**2017**	2016
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,575,766**	1,639,358
Prepaid land lease payments		**95,190**	105,210
Investment properties		**413,194**	413,194
Goodwill		**201**	201
Deposit paid for acquisition of property, plant and equipment		**12,366**	85,642
Deferred tax assets		**103,323**	103,323
Other intangible assets		**4,417**	4,750
Accounts and other receivables due after one year	*10*	**70,595**	89,887
		2,275,052	2,441,565
CURRENT ASSETS			
Prepaid land lease payments		**2,908**	3,075
Accounts and other receivables and prepayments	*10*	**1,240,324**	1,336,508
Pledged bank deposits		**—**	15,000
Bank balances and cash		**69,505**	34,500
		1,312,737	1,389,083
CURRENT LIABILITIES			
Accounts and other payables	*11*	**368,783**	485,146
Amounts due to directors of the Company		**9,602**	28,480
Amounts due to non-controlling interests of a subsidiary		**1,838**	2,476
Tax payable		**88,480**	130,548
Bank borrowings	*12*	**371,192**	485,215
Other borrowings	*13*	**64,527**	67,538
Bonds payable	*14*	**230,378**	246,381
		1,134,800	1,445,784
NET CURRENT ASSETS/(LIABILITIES)		**177,937**	(56,701)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,452,989**	2,384,864

	notes	**2017** *RMB'000*	2016 *RMB'000*
CAPITAL AND RESERVES			
Share capital		**123,483**	123,483
Reserves		**2,056,923**	1,985,883
Equity attributable to owners of the Company		**2,180,406**	2,109,366
Non-controlling interests		**156,844**	160,136
TOTAL EQUITY		**2,337,250**	2,269,502
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**68,252**	67,611
Deferred tax liabilities		**12,651**	14,367
Other borrowings	*13*	**34,836**	33,384
		115,739	115,362
		2,452,989	2,384,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

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 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 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

During the year ended 31 December 2016, the Group had not settled the Bonds (as defined in Note 14) when the Bonds fell due for repayment on 14 March 2017, an extended maturity date from the original maturity date. The Bonds remained overdue for repayment as at the end of the reporting period. On 21 March 2017, 5 June 2017 and 21 September 2017, the Company and CITIC Capital China Access Fund Limited (the "Bondholder" or "CITIC") entered into the Second Amendment Agreement, the Third Amendment Agreement, the Fourth Amendment Agreement (all as defined in Note 14) pursuant to which the Company needs to repay the principal amount of the Bonds of approximately HK$304,867,000 (equivalent to approximately RMB254,842,000 based on the spot rate on 31 December 2017) together with the interest amount due by 31 December 2017.

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 consolidated financial statements were prepared based on the assumption that the Group can be operated as a going concern as the Directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2017, 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) Since most of the bank borrowings as at 31 December 2017 of RMB371,192,000 were secured by the Group's assets. The Directors believe that it is highly probable that they can be renewed in the next twelve months; and

(3) As at 31 December 2017, the Group has unutilised banking facilities of RMB486,000,000 which will be available for use by the Group in the next twelve months.

On the basis of the above considerations, 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

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the 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.

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 and leasing of a shopping mall and the construction of a hotel by the Group.

Segment results

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

	Capital and Reclamation Dredging Business *RMB'000*	Environmental Protection Dredging and Water Management Business *RMB'000*	Other Marine Business *RMB'000*	Property Management Business *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017					
Segment revenue	**281,589**	**130,223**	**232,572**	**6,540**	**650,924**
Segment results	**93,867**	**37,848**	**37,780**	**(3,490)**	**166,005**
Unallocated other income					**18,059**
Other gains and losses, net					**18,683**
Unallocated corporate expenses					**(29,097)**
Unallocated finance costs					**(62,416)**
Profit before tax					**111,234**

	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*
For the year ended 31 December 2016					
Segment revenue	353,961	154,702	153,451	5,040	667,154
Segment results	140,569	43,785	17,680	(475)	201,559
Unallocated other income					19,347
Other gains and losses, net					(5,999)
Unallocated corporate expenses					(31,465)
Unallocated finance costs					(61,222)
Profit before tax					122,220

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

5. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Government financial incentive *(note)*	**9,717**	9,239
Bank interest income	**266**	547
Interest income in respect of non-current accounts receivable	**7,920**	11,879
Interest income in respect of other receivable	**—**	2,903
Sundry income	**156**	286
	18,059	24,854

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 ending in 2019 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 2017 was RMB9,717,000 (2016: RMB9,239,000). Accordingly, the Group recognised such amount as other income for the year.

6. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**40,746**	51,618
Deferred taxation	**(1,716)**	(4,648)
	39,030	46,970

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

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**111,234**	122,220
Tax at the PRC EIT rate of 25% (2016: 25%)	**27,809**	30,555
Tax effect of expenses not deductible for tax purpose	**7,118**	11,867
Tax effect of tax losses not recognised	**4,103**	4,548
Tax charge for the year	**39,030**	46,970

(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 Company and its subsidiaries had no assessable profits arising in or derived from Hong Kong for both years.

7. PROFIT FOR THE YEAR

	2017	2016
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,868**	1,932
Amortisation of other intangible assets	**333**	250
Amortisation of prepaid land lease payments	**2,792**	2,806
Depreciation of property, plant and equipment	**101,398**	99,982
Directors' emoluments	**2,100**	2,100
Other staff costs	**44,102**	48,557
Retirement benefit scheme contributions, excluding those of directors	**3,757**	3,481
Total staff costs	**49,959**	54,138
Allowance for doubtful debts	**—**	11,877
Gain on disposal of property, plant and equipment	**1,520**	—
Sub-contracting charges included in operating cost	**192,595**	162,357

8. EARNINGS PER SHARE

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

	2017	2016
	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	**71,040**	68,794
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,478,064**	1,252,900

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.

As at 31 December 2017 and 2016, the Group does not have any potential ordinary shares.

9. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2017 and 31 December 2016, nor has any dividend been proposed since the end of the reporting period.

10. ACCOUNTS AND OTHER RECEIVABLES AND PREPAYMENTS

	2017	2016
	RMB'000	*RMB'000*
Non-current:		
Accounts receivable, net of allowance for doubtful debts	**68,798**	88,090
Value-added tax recoverable	**1,797**	1,797
	70,595	89,887
Current:		
Accounts receivable, net of allowance for doubtful debts	**1,153,637**	1,272,936
Bills receivable	**4,150**	4,312
Government financial incentive receivables	**11,888**	10,407
Deposits and prepayments	**60,598**	40,643
Others	**10,051**	8,210
	1,240,324	1,336,508
	1,310,919	1,426,395

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

Aged analysis of the Group's accounts receivable

	2017	2016
	RMB'000	*RMB'000*
0–30 days	**93,370**	117,338
31–60 days	**31,066**	66,517
61–90 days	**60,942**	69,072
91–180 days	**135,715**	101,847
181–365 days	**261,162**	212,753
1 year–2 years	**205,478**	433,730
Over 2 years	**434,702**	359,769
	1,222,435	1,361,026

11. ACCOUNTS AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Accounts payables		
Sub-contracting charge	**122,881**	132,044
Fuel cost	**18,923**	36,080
Repair and maintenance	**23,667**	15,270
Others	**3,593**	5,703
	169,064	189,097
Other payables		
Payable for property, plant and equipment	**11,654**	11,880
Payable for construction cost of investment properties	**82,448**	115,853
Accrual other taxes	**40,227**	111,630
Accrual staff salaries and welfare	**25,848**	26,576
Receipts in advance	**18,215**	9,036
Interest payable on the Bonds	**849**	4,334
Others	**20,478**	16,740
	199,719	296,049
	368,783	485,146

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:

	2017	2016
	RMB'000	*RMB'000*
0–30 days	**51,147**	45,771
31–60 days	**6,810**	12,784
61–90 days	**19,414**	10,324
91–180 days	**13,111**	22,194
Over 180 days	**78,582**	98,024
	169,064	189,097

12. BANK BORROWINGS

	2017	2016
	RMB'000	*RMB'000*
Secured bank borrowings		
Payment schedule according to contractual repayment terms		
Amount due for settlement within one year	**371,192**	485,215

13. OTHER BORROWINGS

	2017	2016
	RMB'000	*RMB'000*
Unsecured other borrowings		
Without fixed repayment term and classified as current liabilities	**64,527**	67,538
Classified as non-current liabilities	**34,836**	33,384
	99,363	100,922

14. 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, being CITIC, has an option to either convert the Bonds 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 approximately HK$325,115,000 (equivalent to approximately RMB290,818,000 based on spot exchange rate on 7 November 2016) (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 HK$, which is a currency other than the Company's functional currency. Therefore, the conversion option in the Bonds does not result in an exchange of a fixed number of the Company's own equity instrument for a fixed amount of cash, denominated in HK$. Accordingly, the conversion option is accounted for separately as a derivative liability, which is 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%.

The Group had not paid the Original Redemption Amount and the last interest payment on the Original Maturity Date to CITIC. Overdue interest of approximately HK$945,000 (equivalent to approximately RMB840,000) was incurred up to 31 December 2016. During the year ended 31 December 2016, the Group and CITIC entered into a framework agreement on 14 November 2016 (as amended by supplemental framework agreements, collectively the "Framework Agreement") 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 approximately HK$275,415,000 (equivalent to approximately RMB246,381,000 based on spot exchange rate on 31 December 2016), 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 reporting period, the Company has settled approximately HK$39,113,000 (equivalent to RMB33,833,000) to CITIC. The Company and CITIC entered into the second amendment agreement and supplemental deed to the original deed poll regarding the Bonds (the "Second Amendment Agreement") on 21 March 2017, the third amendment agreement and supplement deed to the original deed poll regarding the Bonds (the "Third Amendment Agreement") on 5 June 2017, the fourth amendment agreement and supplemental deed to the original deed poll regarding the Bonds (the "Fourth Amendment Agreement") on 21 September 2017 to further extend the maturity date to 22 January 2018 and to revise the principal amount of the Bonds to approximately HK$304,867,000 (equivalent to approximately RMB254,842,000 based on spot rate on 31 December 2017). On 23 January 2018, the fifth amendment agreement and supplemental deed to the original deed poll regarding the Bonds (the "Fifth Amendment Agreement") to further extend the maturity date to 21 June 2018 and to revise the principal amount of the Bonds to approximately HK$278,777,000 (equivalent to approximately RMB233,033,000 based on spot rate on 31 December 2017).

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, 15 November 2017, 1 December 2017 and 23 January 2018.

Based on the revised agreements, interest rate 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 15 November 2017 and up to 22 January 2018	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 the Reduced Redemption Amount/revised principal amount and compounded on a monthly basis.

Under the abovementioned agreements were entered into the Company and CITIC, the Bonds are personally guaranteed by Mr. Liu and his spouse Ms. Zhou, who are the Directors and equity interests in certain subsidiaries of the Company shall pledge in favour of CITIC a dredger, and an industrial premises and a residential property owned by the Group included in property, plant and equipment with carrying value of RMB279,186,000.

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

	Debt component	**Conversion option (derivative component)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2016	249,553	7,030	256,583
Amortisation using effective interest method	30,668	—	30,668
Interest settlement	(3,150)	—	(3,150)
Changes in fair value	—	(7,030)	(7,030)
Accrued overdue interests	840	—	840
Amounts waived under the Framework Agreements	(13,781)	—	(13,781)
Settlement under the agreements	(34,453)	—	(34,453)
Exchange realignment	16,704	—	16,704
Accrued interests	4,334	—	4,334
At 31 December 2016	250,715	—	250,715
Interest	39,312	—	39,312
Settlement	(42,483)	—	(42,483)
Exchange realignment	(16,317)	—	(16,317)
At 31 December 2017	231,227	—	231,227

The bonds as the end of the reporting periods are represented by:

	2017	2016
	RMB'000	*RMB'000*
Interest payable within one year included in other payable	**849**	4,334
Bonds payable within one year	**230,378**	246,381
	231,227	250,715

15. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group paid rentals of RMB96,000 (2016: RMB96,000) 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 2017 and 2016. As at 31 December 2017, the amount due to Mr. Liu was RMB6,798,000 (2016: RMB26,499,000).

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

As at 31 December 2017 and 2016, 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 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.

Bank borrowing of the Group of RMB88 million (2016: RMB98 million) was supported by a property owned by a company in which Mr. Liu has beneficial interest.

16. EVENT AFTER THE REPORTING PERIOD

Extension of maturity of the Bonds

On 23 January 2018, CITIC and the Group entered into the fifth amendment agreement and supplemental deed to the original deed poll regarding the Bonds (the "Fifth Amendment Agreement") to further amend the terms of the Bonds. Under the Fifth Amendment Agreement, the principal amount of the Bonds shall be amended to HK$278,777,000 (equivalent to approximately RMB228,248,000 based on spot exchange rate on 23 January 2018) and the maturity date of the Bonds shall be extended to 21 June 2018 (the "New Maturity Date") with interest rates amended as 13% per annum. Unless previously redeemed or purchased and cancelled, the total amount payable by the Company to CITIC to redeem the Bonds on the New Maturity Date shall be HK$273,671,000 (equivalent to approximately RMB224,068,000 based on spot exchange rate on 23 January 2018)(the "New Redemption Amount"), provided that the Company pays the New Redemption Amount in full on the New Maturity Date. If the Company fails to pay the New Redemption Amount in full on the New Maturity Date, the total amount outstanding of the Bonds together with the accrued interest as at the New Maturity Date shall be HK$293,671,000 (equivalent to approximately RMB240,443,000 based on spot exchange rate on 23 January 2018). Details are set out in the Company's announcement on 23 January 2018.

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 such as hoisting wind power equipment, installing major parts of docks and bridges, as well as laying and salvaging underwater pipelines ("Other Marine Business"). In addition, the Group engaged in property management business ("Property Management Business") in respect of managing Easyhome Yancheng Shopping Mall.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a slight decrease by about 2.4% in total revenue from approximately RMB667.2 million for the year ended 31 December 2016 to approximately RMB650.9 million.

As regards the CRD Business segment, revenue of approximately RMB281.6 million was recorded for the Reporting Period, which decreased by about 20.4% as compared with the year ended 31 December 2016. The decrease in revenue was due to the slowdown of the implementation of the construction projects in dredging industry in the PRC and a decrease in number of newly contracted construction projects as the Group implemented a more robust and prudent policy in selecting new projects in recent years. Revenue of approximately RMB130.2 million was recorded for the EPD and Water Management Business segment, representing a decrease of about 15.8% from its corresponding segment revenue for the year ended 31 December 2016. The decrease was caused by slow works progress of certain environmental protection dredging projects and a lengthy preparation time for pre-construction work for the new EPD and Water Management Business. There has been a significant improvement for the Other Marine Business, which contributed revenue of approximately RMB232.6 million to the Group, representing a substantial increase of 51.6% as compared with approximately RMB153.5 million in the corresponding period of 2016. The increase primarily resulted from the entry by the Group into wind power field.

Revenue for the Property Management Business segment for the Reporting Period was approximately RMB6.5 million, which increased by about 29.8% from RMB5.0 million for the year ended 31 December 2016. 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 Cost and Gross Profit

The Group's operating cost slightly increased from approximately RMB434.0 million for the year ended 31 December 2016 to approximately RMB443.6 million during the Reporting Period, representing a slight increase of about 2.2%. The increase was primarily caused by a corresponding rise in operating cost due to the newly devised wind power projects for the Other Marine Business, as well as diminished revenue for the CRD Business brought about by adopting a prudent operation strategy during the Reporting Period. Nonetheless, substantial costs such as depreciation of assets and maintenance of vessels did not change proportionately, which led to a decrease in gross profit margin. Such increase was collectively influenced by these two factors.

The Group recorded a gross profit of approximately RMB207.4 million during the Reporting Period, representing a decrease of about 11.0% as compared with approximately RMB233.1 million for the year ended 31 December 2016. Gross profit margin slightly dropped from 34.9% for the year ended 31 December 2016 to 31.9% for the Reporting Period. With an increase in cost, gross profit dropped accordingly.

Gross profit margin for the CRD Business segment decreased from about 39.7% for the year ended 31 December 2016 to about 33.3% for the Reporting Period. Such decrease was primarily due to a drop in revenue for the CRD Business brought about by adopting a prudent operation strategy, while substantial costs such as depreciation of assets and maintenance of vessels did not change proportionately.

Gross profit margin for the EPD and Water Management Business segment stood at about 29.1% for the Reporting Period, which approximated the gross profit margin of about 28.3% for the year ended 31 December 2016.

During the Reporting Period, the gross profit margin for the Group's Other Marine Business segment increased from 11.5% for the year ended 31 December 2016 to about 16.2% for the Reporting Period, representing an increase of 4.7 percentage points. Such increase resulted from the venture into the wind power field, which carried a relatively higher gross profit margin.

Other Income

Other income decreased by about 27.3% to approximately RMB18.1 million during the Reporting Period as compared with the year ended 31 December 2016, primarily caused by the decrease in interest income from other receivables during the Reporting Period.

Marketing and Promotion Expenses

Marketing and promotion expenses for the Reporting Period was approximately RMB8.3 million, representing a decrease of about 25.1% as compared with approximately RMB11.1 million for the year ended 31 December 2016, which was mainly attributable to launching a series of one-off marketing and promotion activities for the opening of Easyhome Yancheng Shopping Mall in March 2016, resulting in a substantial increase in these expenses in the preceding year.

Administrative Expenses

Administrative expenses for the Reporting Period amounted to approximately RMB55.4 million, representing an increase of about 13.8% from RMB48.7 million for the year ended 31 December 2016. This was primarily due to an increase in maintenance costs and relevant professional fees for properties and a strengthened management for the new business.

Foreign Exchange Difference

Due to fluctuation in the foreign exchange rate during the Reporting Period, part of the Group's bank borrowings and bank deposits were denominated in United States dollars and Hong Kong dollars. The foreign exchange gain of RMB18.7 million was recognised in the Reporting Period (31 December 2016: loss of approximately RMB39.2 million).

Finance Costs

Finance costs amounted to approximately RMB70.7 million, which approximated finance costs for the year ended 31 December 2016 (31 December 2016: RMB70.0 million).

Income Tax Expense

Income tax expense for the Reporting Period amounted to approximately RMB39.0 million, while income expense amounted to approximately RMB47.0 million for the year ended 31 December 2016.

Profit for the Year

Influenced by the above factors as a whole, net profit for the Reporting Period was approximately RMB72.2 million, which slightly decreased by 4.0% as compared with approximately RMB75.3 million for the year ended 31 December 2016.

Earnings Per Share

Basic earnings per Share for the Reporting Period was RMB0.048 per Share, which dropped by about 12.7% as compared with the earnings per share of RMB0.055 per Share for the year ended 31 December 2016.

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 mitigate the adverse effects of these risks on its financial performance in full measure.

As most of the Group's trading transactions, monetary assets and liabilities are denominated mainly in Renminbi, which is the Group's functional and reporting currency, and save for bonds and certain bank borrowings and deposits denominated in United States dollars and Hong Kong dollars, the foreign exchange gain recognized during the Reporting Period was approximately RMB18.7 million (31 December 2016: loss of approximately RMB39.2 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 instruments. Nonetheless, the Group will continue to closely monitor its related interest rate exposure.

Financial Position

As at 31 December 2017, the total equity of the Group amounted to approximately RMB2,337.3 million (31 December 2016: approximately RMB2,269.5 million). The increase in total equity was mainly attributable to operating revenue for the year during the Reporting Period.

The Group's net current assets as at 31 December 2017 amounted to approximately RMB177.9 million (net current liabilities as at 31 December 2016: approximately RMB56.7 million). The current ratio, which is calculated by dividing current assets by current liabilities, was 1.16 as at 31 December 2017 (31 December 2016: 0.96).

Liquidity and Financial Resources

The Group adopts prudent cash and financial management policies. In order to achieve better cost control and reduce capital cost, the Group's treasury activities are centralized and cash is generally deposited with banks and denominated mostly in Renminbi and Hong Kong dollars.

Included in current assets were cash and various bank deposits which was about RMB69.5 million in total as at 31 December 2017, representing an increase by about 40.4% as compared with that of approximately RMB49.5 million as at 31 December 2016.

The Group's accounts receivables as at 31 December 2017 amounted to approximately RMB1,222.4 million (2016: approximately RMB1,361.0 million), representing a decrease by 10.2% for the corresponding period of the preceding year.

Overdue accounts receivables as at 31 December 2017 increased by about 5.5% (2016: about 31.3%) to approximately RMB1,080.8 million (2016: approximately RMB1,024.1 million).

As at 31 December 2017, total liabilities of the Group amounted to approximately RMB1,250.5 million (31 December 2016: RMB1,561.1 million). The decrease in total liabilities was mainly due to the decrease of bank borrowings and accounts and other payables. The Group's gearing ratio (calculated by interest bearing instruments (including bank borrowings, other borrowings and bonds payable) divided by total equity) decreased to 28.5% (2016: 35.2%).

Capital Structure of the Group

Capital structure of the Group consists of debts, which include amounts due to non-controlling interests of a subsidiary, bank borrowings, other borrowings and 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 buybacks as well as the issue of new debts or the redemption of existing debts.

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi and Hong Kong dollars. During the Reporting Period, most transactions were denominated and settled in Renminbi. The Group recorded a net exchange gain amounting to RMB18.7 million during the Period.

Charge over Assets of the Group

As at 31 December 2017, the Group's bank borrowings were secured by charges over certain dredgers and land owned by the Group, a property owned by a company in 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.

Pursuant to the Framework Agreement and the Third Amendment Agreement, the Group shall pledge over a dredger, an industrial premise located in Jiangsu Province, the PRC and a residential property located in Shandong Province, the PRC in favour of CITIC and/or its affiliates. For more details, please refer to the Company's announcements dated 15 November 2016 and 5 June 2017.

Material Acquisitions and Disposals

The Group had no material investments in or material acquisitions or disposals of subsidiaries during the current year.

Capital Commitments and Contingent Liabilities

As at 31 December 2017, the Group had capital commitments of approximately RMB72.8 million (31 December 2016: approximately RMB125.9 million), which mainly included the construction cost of a hotel.

As at 31 December 2017, the Group did not have any material contingent liabilities (31 December 2016: nil).

BUSINESS REVIEW

The Group recorded an operating revenue of approximately RMB650.9 million and gross profit of approximately RMB207.4 million, representing a decrease of 2.4% and 11.0% respectively for the corresponding period of the preceding year. The decrease in operating revenue primarily resulted from the slowdown of the implementation of the construction projects in dredging industry in the PRC and a decrease in number of newly contracted construction projects as the Group implemented a more robust and prudent policy in selecting new projects in recent years. Despite a drop in revenue, substantial costs such as depreciation of assets and maintenance of vessels did not change proportionately, which led to a decrease in gross profit.

The CRD Business is a core business of the Group. The Group has undertaken and commenced new projects during the Reporting Period, including the projects in Nantong Port, Binhai Port and Pakistan. The decreased revenue generated by such business segment was attributable to greater variations in the volatility of new project construction conditions and the uncertainty in capital returns in the industry. The Group adopts a robust and prudent operating strategy, reflected by a better understanding of the background and a more detailed and thorough due diligence review of proposed newly contracted construction projects, to ensure an effective control of various possible risks.

The Group develops and expands the EPD and Water Management Business segment proactively. 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.

Other Marine Business includes installing marine wind power equipment, hoisting major parts of docks and bridges, laying of underwater pipelines and other works services. With the development of the global economy, wind power (being a clean and renewable energy) market also developed rapidly. Currently, there is great enthusiasm to build marine wind power constructions. The Group is retrofitting some of our vessels to capture more business opportunities.

Easyhome Yancheng Shopping Mall, located in the administrative centre of Yandu District, Yancheng City, Jiangsu Province, the PRC and the core area of Yancheng National High-tech Industrial Development Zone with a gross floor area of 75,600 square metres, commenced operation on 26 March 2016 and is mainly used for leasing under the Property Management Business. The shopping mall was positioned as a large-scale shopping center with domestic construction materials as its theme, offering one-stop services from furniture, housewares to decoration materials to customers. As for now, there are about 100 tenants in Easyhome Yancheng Shopping Mall which include renowned houseware brands such as Steel-land Home, Cheers and M&Z Furniture. The Group expects to gain popularity, raise brand influence and receive long-term and stable rental income through adopting the "Easyhome Yancheng" brand and its operational model, to provide stable cash flow support for the Group's further development of environmental protection business.

In addition to the operation and lease of shopping malls, 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. Construction work of the hotel has been completed currently. As next moves, we need to conduct internal finishes and to confirm cooperation strategies for the hotel. The Group is dedicated to offering a continuous and diversified source of income, as well as to provide stable cash flow support for the Group's further development of environmental protection dredging business in future through expanding new businesses.

EVENT AFTER END OF REPORTING PERIOD

On 23 January 2018, the Company and CITIC entered into the fifth amendment agreement and supplemental deed to the original deed poll regarding the Bonds (the "Fifth Amendment Agreement") to further amend the terms of the Bonds. Under the Fifth Amendment Agreement, the principal amount of the Bonds shall be amended to HK$278.8 million and the maturity date of the Bonds shall be extended to 21 June 2018 (the "New Maturity Date") with interest rates amended as 13% per annum. Unless previously redeemed or purchased and cancelled, the total amount payable by the Company to CITIC to redeem the Bonds on the New Maturity Date shall be HK$273.7 million (the "New Redemption Amount"), provided that the Company pays the New Redemption Amount in full on the New Maturity Date. If the Company fails to pay the New Redemption Amount in full on the New Maturity Date, the total amount outstanding of the Bonds as at the New Maturity Date shall be HK$293.7 million. For more details, please refer to the Company's announcement dated 23 January 2018.

EMPLOYEES AND REMUNERATION POLICY

The sustained development of our business leverages on the ongoing contributions by our employees. The Board considers employees the Group's most valuable wealth and is committed to improving their growth environment, providing them competitive remuneration packages and safeguarding their health and safety. As at 31 December 2017, the Group had 629 (2016: 645) employees. The total staff cost for the Reporting Period was about RMB50.0 million (2016: RMB54.1 million). The Group's remuneration policy is basically determined by the Directors based on the performance of individual employees and market conditions. In addition to salaries and discretionary bonuses, employee benefits include 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 labour disputes which affected its operations in the past and it did not experience any significant difficulties in recruiting and retaining qualified staff.

OUTLOOK

Looking into the year of 2018, 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. In addition, with the support under the "One Belt One Road" strategy, the Group is expanding its business to overseas markets including Southeast Asian markets.

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

CORPORATE GOVERNANCE CODE

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 (the "CG Code"). The Directors consider that the Company has complied with all applicable code provisions under the CG Code during the reporting period except for the deviation mentioned below.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Liu have the dual roles of both chairman and chief executive officer of the Company for the period from 23 September 2016 to 4 January 2017 and the Company has then deviated from this code provision A.2.1.

The Company understands the importance of complying with code provision A.2.1 of the CG Code. On 5 January 2017, Mr. Liu Kaijin resigned as the chief executive officer of the Company and Mr. Wu Xuze was appointed the same position. Hence, the Company has re-complied with the code provision from that date onwards.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding the Directors' dealings in the Company's securities.

Having made specific enquiry to the Directors, all Directors had confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2017.

AUDIT COMMITTEE

The Company has established an audit committee of the Board (the "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, the review of the Group's financial information and the 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 2017, the Audit Committee comprised three independent non-executive Directors namely, Mr. Chan Ming Sun, Jonathan (chairman), Mr. Huan Xuedong and Mr. Liang Zequan.

The financial statements of the Group for the year ended 31 December 2017 were audited by the Company's auditor and reviewed by the Audit Committee.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: 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 2017.

SCOPE OF WORK OF AUDITOR

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 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, CWC CPA Limited, Certified Public Accountants (Practising), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by CWC CPA Limited, Certified Public Accountants (Practising), 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 CWC CPA Limited, Certified Public Accountants (Practising), on this preliminary results announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2017 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.hkexnews.hk) and the Company (www.cdep.com.hk) in due course.

By order of the Board
China Dredging Environment Protection Holdings Limited
Liu Kaijin
Chairman and executive Director

Hong Kong, 28 March 2018

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; Ms. Zhou Shuhua as Executive Director; Mr. Liu Longhua as Vice Chairman and Non-executive Director; and Mr. Huan Xuedong, Mr. Chan Ming Sun Jonathan and Mr. Liang Zequan as Independent Non-executive Directors.

* *For identification purpose only*