China Dredging Environment Protection Holdings Limited

中國疏浚環保控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 871)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Director(s)**") of China Dredging Environment Protection Holdings Limited (the "**Company**") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2015 (the "**Reporting Period**"), together with the unaudited comparative figures for the six months ended 30 June 2014 as follows, which are prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and are presented in Renminbi ("**RMB**"):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**395,886**	450,717
Operating costs		**(262,572)**	(305,411)
Gross profit		**133,314**	145,306
Other income		**19,641**	25,712
Other gains and losses		**6,590**	(13,443)
Marketing and promotion expenses		**(3,356)**	(6,326)
Administrative expenses		**(18,323)**	(22,885)
Finance costs		**(38,271)**	(28,226)

		Six months ended 30 June	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit before tax		**99,595**	100,138
Income tax expense	*5*	**(27,008)**	(37,085)
Profit and total comprehensive income for the period	*6*	**72,587**	63,053
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**68,577**	54,742
Non-controlling interests		**4,010**	8,311
		72,587	63,053
Earnings per share	*7*		
— basic *(RMB)*		**0.07**	0.07
— diluted *(RMB)*		**0.07**	0.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,707,721**	1,726,628
Prepaid land lease payments		**102,254**	95,105
Investment properties		**143,296**	—
Goodwill		**2,956**	2,956
Available-for-sale investment		**20,921**	20,921
Deposit paid for acquisition of property, plant and equipment		**89,280**	9,502
Deferred tax assets		**7,106**	7,106
Accounts and other receivables due after one year	*9*	**280,774**	191,991
Pledged bank deposits		**15,000**	—
		2,369,308	2,054,209
CURRENT ASSETS			
Prepaid land lease payments		**2,792**	2,554
Accounts and other receivables and prepayments	*9*	**1,290,303**	1,232,692
Pledged bank deposits		**68,809**	20,794
Bank balances and cash		**221,141**	158,339
		1,583,045	1,414,379
CURRENT LIABILITIES			
Accounts and other payables	*10*	**552,808**	430,243
Amounts due to directors		**1,505**	2,833
Amounts due to non-controlling interests of a subsidiary		**1,644**	1,644
Derivative financial liabilities in relation to warrants		**626**	—
Tax payable		**135,211**	111,033
Bank borrowings	*11*	**677,818**	592,349
Other borrowings		**709**	1,362
		1,370,321	1,139,464
NET CURRENT ASSETS		**212,724**	274,915
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,582,032**	2,329,124

	Notes	At **30 June** **2015** ***RMB'000*** **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
CAPITAL AND RESERVES			
Share capital		**85,110**	71,592
Reserves		**1,954,060**	1,712,540
Equity attributable to owners of the Company		**2,039,170**	1,784,132
Non-controlling interests		**154,793**	150,783
TOTAL EQUITY		**2,193,963**	1,934,915
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**86,533**	89,333
Deferred tax liabilities		**16,895**	17,753
Bank borrowings	*11*	**28,057**	39,058
Other borrowings		**33,843**	32,939
Convertible bonds		**213,292**	198,461
Derivative financial liabilities embedded in convertible bonds		**9,449**	14,423
Derivative financial liabilities in relation to warrants		**—**	2,242
		388,069	394,209
		2,582,032	2,329,124

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

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

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

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2015, the Group has bank borrowings of approximately RMB677.8 million and other liabilities of approximately RMB692.5 million payable within one year from the end of the six months ended 30 June 2015 ("Reporting Period"). While the Group has only bank and cash balances of RMB221.1 million as at 30 June 2015, 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 of the Company (the "Directors") have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the Reporting Period; (ii) most of the bank borrowings as at 30 June 2015 were secured by the Group's assets and are therefore highly probable that they can be renewed in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB75.0 million as at 30 June 2015 which will be available in the next twelve months.

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

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the Reporting Period are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2014.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure and borrowing costs eligible for capitalisation. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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

4. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors who are also the chief operating decision makers 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 *RMB'000* (Unaudited)	Environmental Protection Dredging and Water Management Business *RMB'000* (Unaudited)	Other Marine Business *RMB'000* (Unaudited)	Dredging Related Construction Business *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Six months ended 30 June 2015					
Segment revenue	**220,190**	**103,517**	**72,179**	**—**	**395,886**
Segment results	**83,422**	**30,923**	**10,959**	**—**	**125,304**
Unallocated other income					**18,972**
Other gains and losses					**6,590**
Unallocated corporate expenses					**(15,037)**
Finance costs					**(36,234)**
Group's profit before tax					**99,595**
Six months ended 30 June 2014					
Segment revenue	203,065	129,310	85,148	33,194	450,717
Segment results	71,750	37,593	24,614	3,027	136,984
Unallocated other income					25,465
Other gains and losses					(13,443)
Unallocated corporate expenses					(22,052)
Finance costs					(26,816)
Group's profit before tax					100,138

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

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**27,866**	37,987
Deferred taxation	**(858)**	(902)
	27,008	37,085

(i) PRC EIT

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

(ii) Hong Kong Profits Tax

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

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

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**50,158**	48,392
Net foreign exchange (gain) loss	**(2,056)**	358
Sub-contracting charges included in operating costs	**114,905**	147,711

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**68,577**	54,742
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**996,939**	832,789
Effect of dilutive potential ordinary shares:		
— Share options	**—**	11,683
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**996,939**	844,472

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

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

The computation of diluted earnings per share for the Reporting Period does not assume the exercise of the outstanding warrants, since the exercise price of the warrants was higher than the average market price of the shares during the Reporting Period.

8. DIVIDENDS

No dividends were paid, declared or proposed during both periods. The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2014: nil).

9. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2015 *RMB'000* **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Non-current:		
Accounts receivables	**256,987**	171,557
Value-added tax recoverable	**3,983**	5,630
Shareholder's loan to Yongheng	**14,804**	14,804
Others	**5,000**	—
	280,774	191,991
Current:		
Accounts receivables	**1,155,768**	1,101,026
Bills receivable	**8,575**	7,000
Government financial incentive receivables	**17,461**	11,944
Deposits and prepayments	**32,816**	18,943
Value-added tax recoverable	**4,750**	6,042
Consideration receivable from Hongji Construction	**69,035**	81,846
Others	**1,898**	5,891
	1,290,303	1,232,692
	1,571,077	1,424,683

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

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

Aged analysis of the Group's accounts receivables

	At 30 June 2015	At 31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0–30 days	**154,515**	188,827
31–60 days	**56,641**	94,295
61–90 days	**45,011**	58,605
91–180 days	**128,361**	93,243
181–365 days	**412,097**	372,471
1 year–2 years	**431,080**	299,113
Over 2 years	**185,050**	166,029
	1,412,755	1,272,583

Included in the accounts receivables balance is retention money of approximately RMB112,550,000 (31 December 2014: RMB163,000,000) as at 30 June 2015.

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

Aged analysis of the Group's bills receivable

	At 30 June 2015	At 31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0–30 days	**—**	300
31–60 days	**50**	1,000
61–90 days	**—**	3,000
91–180 days	**4,620**	1,650
Over 180 days	**3,905**	1,050
	8,575	7,000

10. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2015 *RMB'000* **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
Accounts payables		
Sub-contracting charge	**253,824**	203,161
Chatering cost	**2,291**	796
Fuel cost	**24,647**	26,387
Repair and maintenance	**11,495**	11,341
Others	**2,625**	1,677
	294,882	243,362
Bills payable	**13,809**	5,653
Other payables		
Payable for property, plant and equipment	**62,073**	49,452
Payable for investment properties	**33,698**	—
Accrued other taxes	**91,477**	86,282
Accrued staff salaries and welfare	**16,129**	17,736
Receipts in advance	**9,010**	5,789
Interest on convertible bonds due within one year	**5,759**	5,759
Others	**25,971**	16,210
	244,117	181,228
	552,808	430,243

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

	At 30 June 2015 *RMB'000* **(Unaudited)**	At 31 December 2014 *RMB'000* (Audited)
0–30 days	**88,554**	101,484
31–60 days	**5,511**	38,087
61–90 days	**12,460**	12,001
91–180 days	**26,166**	6,059
Over 180 days	**162,191**	85,731
	294,882	243,362

11. BANK BORROWINGS

During the Reporting Period, the Group raised bank loans of RMB320,862,000 (six months ended 30 June 2014: RMB329,900,000) and repaid bank loans of RMB246,394,000 (six months ended 30 June 2014: RMB395,642,000). As at 30 June 2015, the effective interest rates of the bank borrowings ranged from 3.55% to 7.75% (31 December 2014: 3.79% to 7.80%) per annum.

12. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the Reporting Period, the Group paid rentals of RMB48,000 (six months ended 30 June 2014: RMB46,000) to certain companies controlled by Mr. Liu Kaijin ("Mr. Liu"), the chief executive officer, joint chairman and the ultimate controlling shareholder of the Company, in respect of office premises.

In addition, the Group received other advances from, and made repayments to, Mr. Liu during the six months ended 30 June 2015 and 2014. As at 30 June 2015, the amount due to Mr. Liu was RMB736,000 (31 December 2014: RMB2,167,000).

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

As at 30 June 2015 and 31 December 2014, other than pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

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

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

In addition, as at 30 June 2015, the Group's bank borrowings to the extent of HK$121,040,000 (equivalent to RMB95,623,000) (31 December 2014: HK$257,952,000 (equivalent to RMB203,782,000)) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by two parcels of land owned by 鹽城市咏恒置業有限公司 (Yanchang City Yongheng Properties Co. Ltd*) ("Yongheng"). Another bank borrowing of the Group of RMB20 million (31 December 2014: RMB20 million) was supported by a property owned by a company in which Mr. Liu has beneficial interest.

(iii) Compensation of key management personnel

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

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**1,270**	1,819
Post-employment benefits	**6**	7
	1,276	1,826

INTERIM DIVIDEND

The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Company recorded a revenue of approximately RMB395.9 million, representing a period-on-period decrease of 12.2%. During the Reporting Period, the gross profit of the Company was approximately RMB133.3 million, representing a period-on-period decrease of 8.3%. The net profit was approximately RMB72.6 million (or approximately RMB66.0 million if non-cash gain in fair value change of Convertible Bonds (as defined below) and Warrants (as defined below) was excluded), representing a period-on-period increase of 15.1% from RMB 63.1 million in the first half of 2014 (or decrease of 13.7% if non-cash gain of about RMB6.6 million for the Reporting Period and non-cash loss of about RMB13.4 million for the six months ended 30 June 2014 in fair value change of Convertible Bonds and Warrants were excluded). The profit attributable to the Shareholders for the Reporting Period was approximately RMB68.6 million.

The major factor for the decrease of the Group's revenue recorded in the Reporting Period as compared to the first half of 2014 is because upon completion of certain water management projects, no sizeable new environmental protection dredging ("EPD") project work was taken up and/or commenced during the Reporting Period. In the first half of 2015, the reclamation and capital dredging ("CRD") business of the Company improved, while the EPD and water management business declined as compared with the corresponding period of previous year. As regards the CRD business, a number of newly placed orders for reclamation projects were proceeded with and the utilization rate of the dredgers was improved during the Reporting Period. Regarding the EPD and water management business, while certain water management projects had been completed, no sizeable new EPD project work was taken up and/or commenced during the Reporting Period. Due to the downward pressure of the PRC domestic macroeconomic condition, the EPD and water management segment growth was slower than expected though various favorable policies in water treatment industry have come into force in the PRC gradually in the past several years. The work schedule for Phase 2 of EPD project at Nanhu, Wuhan (武漢南湖) has yet to be announced as at the date of this announcement while Phase one of the said EPD project had been completed by the Group for a period of time. The Group is in the course of reviewing the corresponding construction timetable with its customers in relation to the projects.

Due to the said situation, the Group has determined to slow down its initial production plan of dewatering equipment for the time being as the Group's capacity for EPD business has already been increased to around 5 million cubic meter per annum.

The net profit of the Company for the first half of 2015 as compared to the first half of 2014 increased which was mainly attributable to the non-cash fair value gain of (a) an unsecured convertible bonds issued in November 2013 ("Convertible Bonds") and (b) a series of warrants issued in January 2014 ("Warrants"), with a gain of approximately RMB6.6 million in the 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$236.0 million (about RMB186.5 million) being the net proceeds of subscription price was received by the Company on 30 January 2015 and 2 February 2015 respectively, details of which were set out in the Company's announcements dated 29 December 2014, 29 January 2015, 30 January 2015 and 2 February 2015 respectively. Up until 30 June 2015, around HK$216.0 million (about RMB170.7 million) out of the net proceeds was used as additional general working capital of the Group with the rest in the sum of about HK$20.0 million (around RMB15.8 million) being deposited into a bank.

On May 2015, the Company, 上海璃澳實業有限公司 (Shanghai Liao Property Company Limited*) ("Shanghai Property") and 豐威實業投資集團有限公司 (Fundway Property Investment Group Limited*) ("Fundway Investment") entered into an investment agreement ("JV Agreement") in relation to the formation of a joint venture company ("JV") which shall be owned as to 80%, 10% and 10% by the Company, Shanghai Property and Fundway Investment respectively. The total registered capital of the JV will be RMB400 million. The parties intend to, through the JV, conduct micro-financing business including lending, venture capital financing and other business. The formation of the JV is subject to, among other matters, the approval by the relevant regulatory authorities in the PRC. In the event the precedent conditions have not been fulfilled by 31 December 2015, the JV Agreement shall cease and determine. For further details, please refer to the Company's announcement dated 16 May 2015.

Future Prospects

The world is facing a series of tough challenges in the second half of this year. The Group's business may be negatively impacted in the coming months. Despite the market situation, the Group is still cautious but optimistic about the potential in both CRD and EPD business in the PRC in the long run. While the management will pay more effort to get more projects in order to maintain the aggregate quantity of work in the order book, the Group will increase its investment in research and development of polluted water and sludge treatment including the building of a new research centre. Further, in order to broaden its income source and enhance its financial performance, the Company entered into the JV Agreement as above mentioned to provide micro-financing business in the PRC which the management are optimistic about its prospect and potential.

As mentioned before, the PRC government's determination and full dedication to tackle water pollution problem is without doubt. More favorable policies regarding the water sector have been introduced and implemented gradually. In order to enjoy the full benefits of the favorable policies for the industry, the Group's management believes that it is very important to the Group to keep on developing its technology with leading advantages together with refining and extending its business model in polluted water and sludge treatment. Apart from making endeavors to prepare for bidding EPD projects to be carried out at Taihu* (太湖), Chaohu* (巢湖) and Dian Lake* (滇池) etc. whenever the tendering of such projects are available, the Group shall, with its various self-developed sludge treatment technologies and processes and its professional expertise in stabilizing and solidifying heavy metal contaminated soils, identify and pursue different opportunities in relation to the treatment of sludges generated from industrial contaminated and urban waste water.

Financial Review

Overview

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

Revenue

During the Reporting Period, the Group recorded a decrease in revenue. Revenue for the Reporting Period was about RMB395.9 million, representing a decrease of about 12.2% as compared with about RMB450.7 million in the corresponding period of 2014.

As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the Reporting Period were about RMB220.2 million and about RMB103.5 million which represented an increase of about 8.4% and a decrease of about 19.9% respectively from the corresponding segments' revenue in the corresponding period of 2014. The slightly increase in revenue from the CRD Business segment was primarily due to the work done of certain newly placed orders of reclamation projects and the improvement of utilization rate of the dredgers during the Reporting Period. Revenue from EPD and Water Management Business segment decreased by 19.9% in the first half of 2015 because of the completion of certain water management projects but no sizeable new EPD projects was taken up and/or commenced during the Reporting Period.

No revenue was generated from the Dredging Related Construction Business during the Reporting Period which represented a decrease of 100% as compared with about RMB33.2 million in the corresponding period of 2014. No such construction work was required during the first half of 2015.

Other Marine Business contributed revenue of about RMB72.2 million to the Group for the Reporting Period, which represented a decrease of about 15.2% as compared with about RMB85.1 million in the corresponding period of 2014 mainly due to the drop of the business and the service price causing by the increased competition in salvage and hoisting business during the Reporting Period.

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

Operating cost and gross profit

The Group's operating cost decreased from about RMB305.4 million for the six months ended 30 June 2014 to about RMB262.6 million for the Reporting Period, representing a decrease of about 14.0% which was due to the drop of the business and the price of fuel oil. The Group recorded a gross profit of about RMB133.3 million for the Reporting Period, representing a decrease of 8.3% as compared with the six months ended 30 June 2014 of about RMB145.3 million. The decrease in gross profit was mainly due to lower revenue income during the Reporting Period.

The segment profit margin of CRD Business increased from about 35.3% for the six months ended 30 June 2014 to 37.9% for the Reporting Period, mainly due to the increase of utilization rate of the dredgers during the Reporting Period.

The Group's Dredging Related Construction Business is an ancillary services which principally includes ancillary construction work of capital and reclamation dredging services and that traditionally operated at relatively low but acceptable gross profit margin. No such service is required during the Reporting Period.

The segment profit margin of EPD and Water Management Business segment for the Reporting Period was about 29.9% which was slightly higher than about 29.1% for the six months ended 30 June 2014. And such segment profit margin level was assessed to be reasonable as the water management projects with lower gross profit margin remained the majority share of the segment during the Reporting Period. The segment profit margin of Other Marine Business was about 28.9 % for the six months ended 30 June 2014 and about 15.2% for the Reporting Period, mainly due to increased competition in the salvage industry.

As a result, the overall gross profit margin of the Group increased from 32.2% for the six months ended 30 June 2014 to 33.7% for the Reporting Period.

Other income

Other income decreased from RMB25.7 million for the six months ended 30 June 2014 to about RMB19.6 million for the Reporting Period, mainly due to the decrease in bank interest and interest income in respect of certain non-current accounts receivables and current consideration receivable during the Reporting Period.

Net gain due to fair value changes of derivative financial liabilities

There was a non-cash gain of about RMB6.6 million due to the change of fair value of convertible bonds and warrants. The issue of convertible bonds and warrants did provide strong capital support for the development of the Group's business, in particular the EPD and Water Management Business, enhance the Group's market presence and competitiveness and strengthen the Group's capital base effectively after the convertible bonds' and warrants' full conversion. Please refer to the Company's announcements dated 29 October 2013, 24 December 2013, 9 January 2014 and 17 January 2014 respectively. No issuance of any bonds and/or warrants were/was made in first half of 2015.

Marketing and promotion expenses

Marketing and promotion expenses for the Reporting Period was about RMB3.4 million representing a decrease of around 46.0% as compared with the six months ended 30 June 2014 of about RMB6.3 million which the management considered to be still at a reasonable level.

Administrative expenses

Administrative expenses for the Reporting Period remained at a reasonable level which is in line with the corresponding period in 2014.

Finance costs

Finance costs increased by about RMB10.0 million to about RMB38.3 million for the Reporting Period as compared to the six months ended 30 June 2014, mainly due to the increase of borrowing costs.

Income tax expense

Due to the decrease in profit before tax, income tax expense for the Reporting Period amounted to about RMB27.0 million, representing a decrease of about RMB10.1 million compared with the corresponding period in 2014.

Profit for the period

As a combined effect of the above, the net profit for the period increased by about 15.1% from about RMB63.1 million for the six months ended 30 June 2014 to about RMB72.6 million for the Reporting Period. Comparing the operating profit of the six months ended 30 June 2014 with the operating profit for the Reporting Period (with the non-cash net gain of about RMB6.6 million for the Reporting Period and the non-cash net loss of about RMB13.4 million for the six months ended 30 June 2014 due to fair value changes of derivative financial liability not taken into account), the operating profit dropped by about 13.7%.

Earnings per share

Basic earnings per share for the Reporting Period was RMB0.07 per share which remained the same as that for the six months ended 30 June 2014.

Financial position, liquidity and financial resources

The Group has remained at a sound financial resource level. As at 30 June 2015, total equity of the Group amounted to about RMB2,194.0 million (31 December 2014: RMB1,934.9 million).

The Group's net current assets as at 30 June 2015 amounted to about RMB212.7 million (31 December 2014: RMB274.9 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2015 was 1.16 (31 December 2014: 1.24). The decreases in both the Group's net current assets and current ratio were mainly due to the increase in accounts and other payables.

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 totaling about RMB221.1 million as at 30 June 2015, representing an increase of about RMB62.8 million as compared with about RMB158.3 million as at 31 December 2014.

Due to slower settlement from the debtors, the Group's accounts and bills receivables as at 30 June 2015 increased by about RMB141.7 million from 1,279.6 million as at 31 December 2014 to about RMB1,421.3 million. Though the Group did not have any collateral over the receivables, the Group's management considered that there is no recoverability problem as to its receivables as the amounts were mainly due from reputable enterprises and enterprises with financial support from the PRC government. The amount of overdue receivables as at 30 June 2015 did not significantly impair the Group's liquidity position as it has a positive operating cash flow before movements in working capital changes for the Reporting Period.

Total liabilities of the Group increased from RMB1,533.7 million as at 31 December 2014 to about RMB1,758.4 million as at 30 June 2015. The increase in total liabilities was mainly due to the increase of bank borrowings and accounts and other payables. The Group's gearing ratio (calculated by bank borrowings divided by total assets) decreased to a level of 17.9% (2014: 18.2%), which the Board believes is at a healthy level.

Charge over assets of the Group

As at 30 June 2015, the Group's bank borrowings and credit facilities are secured by pledged bank deposits of about RMB83.8 million, charges over certain dredgers, accounts receivables and land owned by the Group, two parcel of land owned by Yongheng, a property owned by a company which Mr. Liu Kai Jin ("Mr. Liu") has beneficial interest, two properties owned by certain non-controlling shareholders of the Company's subsidiary; and personal guarantees by Mr. Liu and Ms. Zhou Shuhua. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the contractual arrangements, pursuant to which all economic benefits and risks arising from the business of 江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holding Group Limited*) have been transferred to 江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*).

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.

Material acquisitions and disposals

There was no material acquisitions or disposals during the period under review.

Capital commitments and contingent liabilities

As at 30 June 2015, the Group has the following substantial capital commitment:

(i) RMB24.0 million in relation to the 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) ("Hunan Investment"), 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) ("Zhuzhou Investment") in the PRC (31 December 2014: RMB24.0 million). Please refer to the Company's announcements dated 21 October 2012 and 18 March 2014 for further details, and

(ii) About RMB196.2 million in relation to the engineering, procurement and construction of part of the commercial buildings on the site at Yandu District of Yancheng* (鹽城市鹽都區), Jiangsu Province, the PRC, with an area of about 46,000 square metres acquired by the Group in May 2012 ("Commercial Buildings") for its own use including relocating the Group's centralized headquarters to the Commercial Buildings. As at the date of this announcement, the management is considering that part of the Commercial Buildings not utilised by the Group will be leased out to third party tenants for diversifying our business and enhancing and providing alternative source of revenue income of the Group in the future. Further announcement shall be made by the Group as and when appropriate. Please also refer to the Company's announcement dated 8 May 2012 for further details.

Further, as set out in the paragraph headed "Business Review" above, the Group will invest RMB320.0 million into the JV for carrying out micro-financing business if approval by the relevant authorities in the PRC is granted and other conditions precedent are fulfilled on or before 31 December 2015.

As at 30 June 2015, the Group did not have any material contingent liability (31 December 2014: nil).

Employees and remuneration policy

As at 30 June 2015, the Group had a workforce of 652 employees (31 December 2014: 630). Total staff cost for the Reporting Period was about RMB30.0 million (2014: RMB27.4 million). The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under the Share Option Scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules). The Group also provides on-going training to its employees.

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

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company ("Audit Committee") has been set up in accordance with the Listing Rules. Members of the Audit Committee as at 30 June 2015 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Xu Hengju and Mr. Huan Xuedong, all of whom are independent non-executive Directors.

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

The unaudited condensed consolidated interim financial statements for the Reporting Period have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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

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

Hong Kong, 28 August 2015

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

* *For identification only*